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PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP
OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND
REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT
THE GLOBAL AND NATIONAL LEVELS IN THE FIELD OF
ACCOUNTING AND REPORTING BY TRANSNATIONAL CORPORATIONS,
ON THE BASIS OF DOCUMENTATION RECEIVED BY THE UNITED
NATIONS CENTRE ON TRANSNATIONAL CORPORATIONS FROM
(i) INDIVIDUAL MEMBER STATES, (ii) INTERGOVERNMENTAL
ORGANIZATIONS AND (iii) NON-GOVERNMENTAL ORGANIZATIONS

Review of important current developments at the global level
in the field of accounting and reporting by transnational
corporations

Report of the Secretary-General

SUMMARY

The purpose of this report is to review developments that promote the harmonization of accounting standards worldwide and the comparability of financial statements. Vigorous efforts are under way to reduce the options in international standards and to increase their use by the regulators of securities markets and international trade. At the same time, authorities in Central and Eastern Europe are rewriting their commercial legislation, including accounting regulations, to promote the transition to market economies. Thus, one could optimistically expect significant gains in harmonization during the 1990s. The report also examines certain problem areas: new financial instruments, intangibles, environmental accounting, privatization and accounting for financial institutions. Lastly, the activities of international and regional bodies active in the field are summarized.

* E/C.10/AC.3/1992/1.

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INTRODUCTION

1. The present report on global accounting issues is divided into three chapters. The first section deals with the harmonization of accounting standards. It covers both the economic events that drive that harmonization and the progress being made at various levels by various organizations. The second section reviews key international accounting issues and/or unresolved problems such as new financial instruments, information disclosure by financial institutions, auditor responsibilities, intangible assets, valuation issues arising during privatization and environmental accounting. The last section summarizes the principal activities of international and regional accounting organizations during 1991.

I. MAJOR EFFORTS TO HARMONIZE ACCOUNTING STANDARDS

2. The need for harmonization continues to be driven by a series of economic events. Some of those events are related and include the globalization of capital markets, the integration of Europe by 1992, the move towards market systems by former command economies and the dismantling of trade barriers and the formation of trade blocs.

3. The market value of all listed companies on the world capital market grew at an annual compound rate of 16 per cent between 1981 and 1990. In 1990 market capitalization reached \$9.5 trillion, the number of listed domestic companies totalled 29,068 and the value of traded shares amounted to \$6.1 trillion. 1/ Regulators have not kept up with the growth in these markets, and the lag contributes to market volatility since a crisis in one market is quickly transmitted to the others. This lag is ominous given the huge sums that are transferred abroad, the increased importance transnational corporations place on such markets for raising capital and the higher investor risks that come from loosely regulated markets. Investors confront a patchwork of securities laws and inconsistent enforcement policies and diversity in accounting and reporting rules. The level and frequency of public disclosure about corporate finances and ownership is uneven from market to market and accounting standards remain a hodgepodge. 2/

4. In 1991 a working party of the International Organization of Securities Commissions studied the disclosure regimes of 14 countries and found that while the categories of information disclosed were consistent mark-to-market, there were major differences in the specificity of disclosure and the methods by which such disclosures were obtained. Important differences in accounting principles, auditing standards and auditor independence standards existed across countries. The working party concluded that the differences in financial reporting "probably present one of the greatest challenges for issuers seeking to make multinational offerings of securities". 3/

5. The integration of Europe by 1992 has been causing an increase in cross-border activity since transnational corporations want to ensure that they are well positioned in this huge internal market. Foreign listings as percentage of total listings increased during the period 1983-1990 from 26 to 34 per cent in France and from 28 to 46 per cent in Germany. 4/ The annual average foreign direct investment flows into the European Community (EC) doubled between 1980-1984 and 1985-1989 while intra-EC flows increased fourfold in the same period. This growth, which averaged 38 per cent annually (1980-1987), illustrates the acceleration of the integration of the regional economy. In terms of corporate strategy, the increasing importance of intra-EC foreign direct investment can be characterized as the regionalization of EC-owned industry motivated in large part by the 1992 programme to unify the regional market. 5/ This growth will be intensified by the creation of a 19-nation European Economic Area on 1 January 1993 that will include both the European Community and the members of the European Free Trade Association (EFTA). There will therefore be a heightened impetus to harmonize the basic regulatory infrastructure that governs this new expanded market.

6. The rapid move of Central and Eastern Europe to set up market economies, will end not only a 70-year-old ideological battle over the relative efficiency of market versus command economies but also the dichotomy between the respective accounting and reporting systems of those economies. Fortunately, this region has shown a great willingness to adopt and adapt to EC directives and international accounting standards rather than opt for purely national solutions. Association agreements between the European Community and Czechoslovakia, Hungary and Poland are under negotiation. The impact on harmonization will be discussed in a separate section.

7. The dismantling of barriers to trade in goods and services through the current Uruguay Round and through the formation of trading blocs increases global economic activity and exerts pressure for the harmonization of standards or the acceptance of minimum standards. The establishment of a multilateral framework of rules governing trade in services is likely to increase the volume and pattern of cross-border movements in services. Such a framework has been under negotiation in the Uruguay Round of Multilateral Trade Negotiations since 1986. The Group of Negotiations on Services (GNS) has made significant progress regarding a regime that would facilitate the flow of services worldwide. Business services such as accounting, advertising, data processing and software serve foreign markets primarily through the establishment of affiliates or other arrangements that allow for a direct relationship with clients. The multilateral framework emerging from the Uruguay Round could open up national service markets by assuring transparency, progressive liberalization, national treatment, market access and non-discrimination. The aim is to reduce unfair discrimination against foreign service suppliers. There probably will be no special protocol on accounting services and international accounting standards since there is little support for separate rules for different professional services. Accounting services will be taken care of within the General Agreement on Trade and Services (GATS) when it is concluded.

8. Lastly, new trading blocs such as that comprising Canada, Mexico and the United States of America will have an impact on harmonization since these three countries are considering a joint accounting effort as a result of their Free Trade Agreement.

A. The comparability project of the International Accounting Standards Committee (IASC)

9. The International Accounting Standards Committee (IASC) continued to make progress during 1991 in its effort to reduce the number of options in its existing standards. Exposure draft 32, Comparability of Financial Statements (1989), contained 29 proposals that were designed to eliminate most of the choices of accounting treatment for like transactions and events permitted by international accounting standards. That exposure draft received 160 responses and after the review IASC issued a statement of intent that identified:

(a) Twenty-one issues that will be implemented without substantive change from the proposals in ED 32; these issues include IAS 8, Unusual and Prior Period Items and Changes in Accounting Policies; IAS 11, Accounting for Construction Contracts; IAS 16, Accounting for Property, Plant and Equipment; IAS 18, Revenue Recognition; IAS 9, Accounting for Retirement Benefits in the Financial Statements of Employers; IAS 21, Accounting for Effects of Changes in Foreign Exchange Rates; IAS 22, Accounting for Business Combinations; and part of IAS 25, Accounting for Investments. 6/ From the above list, exposure drafts for amendments to IAS 11, 18 and 22 were approved by the IASC Board in November 1991;

(b) Three issues for which the proposals in ED 32 had been changed and which had been re-exposed in 1991. These issues - which include IAS 2, Valuation and Presentation of Inventories in the Context of the Historical Cost System, which is replaced by E 38; IAS 9, Accounting for Research and Development Activities, which is replaced by E 37; and IAS 23, Capitalization of Borrowing Costs, which is replaced by E 39 - are discussed below;

(c) Five issues of which further consideration has been deferred pending work on other projects, notably financial instruments; these issues include IAS 17, Accounting for Leases, and part of IAS 25, Accounting for Investments.

Development costs

10. ED 32 proposed that development costs should be recognized as an expense when incurred (benchmark treatment) or capitalized when certain criteria are met (allowed alternative treatment). A substantial number of commentators on ED 32 argued that development costs that meet the asset recognition criteria in the Framework for the Preparation and Presentation of Financial Statements should be recognized as assets. They believed that it would be inconsistent for such costs to be written off as incurred and that in those circumstances enterprises should not be permitted a free choice between deferral and immediate write-off.

11. ED 37 proposes that development costs of a project should be recognized as an asset when: (a) the product or process is clearly defined and the costs attributable to the project or process can be identified separately and measured reliably and (b) all the following criteria are satisfied:

- (i) The technical feasibility of the product or process is reasonably assured;
- (ii) The enterprise intends to produce and market, or use, the product or process;
- (iii) The existence of a market for the product or process or, if it is to be used internally rather than sold, its usefulness to the enterprise is reasonably assured;
- (iv) Adequate resources exist, or are reasonably assured to be available, to complete the project and market or use the product or process.

In all other instances research and development costs should be recognized as an expense only.

Inventories

12. ED 38 proposes that inventories should be measured at the lower of historical cost and net realizable value. Inventories that are not ordinarily interchangeable or goods manufactured and segregated for specific projects should be accounted for using specific identification of their individual costs. The weighted-average cost formula or the first in, first out formula (FIFO) should be used for assigning costs to all other inventories. As set out in the ED 32 statement of intent, the last in, first out formula (LIFO) and base stock formula may not be used. Originally, ED 32 allowed LIFO as an alternative treatment but many commentators on ED 32 argued that the use of LIFO should not be permitted because (a) fiscal considerations unique to particular countries do not provide an adequate conceptual basis for selecting appropriate accounting treatments and (b) it is inconsistent to retain LIFO in a historical cost context as a partial attempt to account for the effects of changing prices without introducing other changes to provide a more comprehensive method of inflation accounting. The proposed statement specifically excludes producer inventories of agricultural products.

Borrowing costs

13. Originally ED 32 proposed that borrowing costs should be recognized as an expense when incurred (benchmark treatment) or capitalized when certain criteria are met (allowed alternative). A number of respondents criticized the proposed benchmark treatment because borrowing costs incurred to generate future income meet the Framework definition of an asset.

14. ED 39 proposes that borrowing costs should be recognized as part of the cost of assets when specified criteria are met. All other borrowing costs are recognized as an expense in the period in which they are incurred. Assets on which borrowing costs should be capitalized may include property, plant and equipment, investment properties and, in certain circumstances, inventories. The amount of borrowing costs capitalized by an enterprise during the period is limited to the total amount of borrowing costs incurred, less interest income earned. This proposal is at variance with existing standards in certain countries.

15. A number of exposure drafts were approved by the IASC Board in November 1991. They deal with Construction Contracts (IAS 11), Revenue Recognition (IAS 18) and Business Combinations (IAS 22).

B. Response to the comparability project

16. Transparency and comparability of financial information can be achieved through two different approaches. 7/ One approach favours a system of reciprocity based on some substantially equivalent minimum threshold where countries with similar standards mutually recognize each other's standards as a condition for market access. An example of that approach is the Canadian-American multijurisdictional disclosure system, which allows cross-border securities offerings, take-over bids and issuer bids by allowing transactions to proceed on the basis of home country disclosures and rules. 8/ A similar agreement is being worked out with the United Kingdom of Great Britain and Northern Ireland.

17. The other approach favours the adoption of a common set of disclosure and accounting standards such as the European Community directives and/or international accounting standards. The European Community has recently shifted towards the approach of minimum harmonization and mutual recognition after deciding that its earlier approach of detailed harmonization had not worked. If the Community had continued to pursue detailed harmonization, some experts felt, the appropriate conditions for a single market would have never been created. Therefore, the European Community has changed its approach to one based on minimum standards and mutual recognition and is at the same time supporting international harmonization and participating in the IASC comparability project. 9/

18. The Fédération des experts comptables européens (FEE) has taken the position that mutual recognition may facilitate the growth and integration of capital markets by reducing the burden of enterprises of preparing different sets of accounts or reconciliations in order to be listed on foreign exchanges. As part of mutual recognition, however, it is important that minimum standards are agreed upon that ensure a minimum acceptable level of quality. Consequently, FEE recommends that as a basis for mutual recognition a minimum set of internationally accepted standards should be agreed upon in order to ensure an acceptable quality of presentation and disclosure of financial information in accounts.

19. It is the intention of the International Organization of Securities Commissions (IOSCO) to require that enterprises seeking listings on the various exchanges use international accounting standards once the IASC comparability project is complete. With this in mind IOSCO asked IASC to also revise IAS 14, Reporting Financial Information by Segment, and IAS 24, Related Party Disclosures.

20. Recently, the Financial Accounting Standards Board (FASB) (United States) has become interested in international accounting matters, largely as the result of the explosive growth of cross-border financing and investing that shifted the focus from national to international comparability. Its objective is to achieve greater consistency between American accounting standards and those promulgated by other national bodies and IASC. According to its strategic plan for international activities FASB will:

- (a) Intensify consideration of foreign national and IASC standards in all domestically oriented FASB projects;
- (b) Engage in joint multinational standard-setting projects on commonly selected topics with the objective of arriving at separate national standards that are in substantial agreement with one another and with IASC standards;
- (c) Consider adopting foreign national or IASC standards that are judged through due process to be superior to their American counterparts. The focus will be on IASC benchmark standards if a pronouncement permits alternative methods;
- (d) Try to convince other countries or IASC to adopt specific American standards that are judged through due process to be superior to their foreign national or international counterparts;
- (e) Attempt to reach agreement on a choice of existing standards where neither the American nor other national or IASC standards are demonstrably superior;
- (f) Continue efforts to encourage equality of financial statement requirements for foreign and domestic companies in their utilization of American capital markets. 10/

21. Besides the efforts of international, regional and national accounting bodies to promote harmonization, transnational corporations themselves are starting to use international standards particularly when the standards of their home countries are not fully developed and/or regional standards are lacking in detail. Due to increasing competitive market pressures, transnational corporations are voluntarily disclosing information that they hope will help them to raise funds more cheaply and promote their capacity to engage in merger and investment activity. In Switzerland a number of corporations such as ASEA-Brown Boveri, Ltd., Ciba-Geigy, Hoffmann-La Roche, Holderbank Financière Glaris, Ltd., Landis & Gyr, Nestle and Sandoz are bringing, or are making preparations to bring, their accounts into line with

international accounting standards. For several years, Italy's Commissione Nazionale per le Società e la Borsa (CONSOB) has required that listed companies apply international accounting standards when no national standard exists. Canada, Zimbabwe and other countries also expect listed companies to comply with international accounting standards.

C. Changes in commercial legislation in Central and Eastern Europe

22. As discussed last year there has been no greater force for harmonization of accounting practices than the move of the former command economies towards market systems. Over the past year Central and Eastern European countries have adopted the necessary commercial legislation to create the conditions and infrastructure for a free market system. This includes legislation on accounting, banking, company law, free trade zones, foreign exchange and financial transactions, foreign direct investment, joint-stock companies, privatization and taxation, to name just a few areas.

23. Legal barriers to the establishment and operation of private enterprises, particularly joint-stock companies, have been swept away. Foreign investors, who were formerly confined to joint ventures, are now allowed either to participate in joint-stock companies or to set up wholly owned enterprises. The foreign purchase of equity shares is likely to replace the traditional foreign contribution to the statutory capital of joint ventures as the principal vehicle for inward foreign direct investment (FDI). A highly restrictive environment has given way to a very fluid one in which the commercial rules are constantly being rethought and changed. This creates its own difficulties and uncertainties for both domestic and foreign investors who have a hard time keeping up with the latest developments. The table lists the most recent laws in three areas of concern: accounting, foreign direct investment and privatization. It is often difficult to procure the texts of new laws as they are not always published in official gazettes and sometimes various versions are issued by those gazettes.

24. Foreign investors have been pressing for an overhaul of accounting regulations so that Eastern accounting practices can be brought into line with Western practices. Bulgaria, Czechoslovakia, Hungary, Poland, Romania and the Union of Soviet Socialist Republics have revised their accounting regulations and four of the six have passed comprehensive accounting laws. The report of the Secretary-General on national developments will give a detailed analysis of these laws. In general Czechoslovakia, Hungary and Poland have modelled their reforms on the EC directives while still retaining a modified chart of accounts for enterprises. The new laws replace a system of "compliance" reporting with one designed to give a true and fair view of operations. The preamble to the Hungarian accounting law explains that that law creates the legal framework whereby accounting will provide a true and fair view of the financial position and performance of enterprises in line with international standards. The enactment of these reforms into law is a powerful force for global harmonization.

Table. Recent selected laws and decrees on foreign direct investment, privatization and accounting and auditing in Central and Eastern Europe

Country or area	Law or decree
Albania	Decree No. 7406 by the Presidium of the People's Assembly of Albania, 31 July 1990, on the Protection of Foreign Investment
	Decree No. 7407, 21 July 1990, on the economic activity of enterprises with the Participation of Foreign Capital
	Decree No. 7512, 10 August 1991, on Sanctioning and Protection of Private Property, Free Initiative of Independent Private Activities and Privatization
Bulgaria	Decree No. 56, 9 January 1989, on Economic Activity as amended in December 1990
	Regulation of 15 February 1989 on the application of Decree No. 56
	Foreign Investment Law, May 1991
	Company Law, 15 May 1991
Czechoslovakia	Law on Accounting, 3 January 1991
	Act on Economic Relations with Foreign Countries (1980) (Act No. 42/1980, in the working of Act No. 112/1988) as amended in 1990 (Act No. 113/1990)
	Act on Enterprises with Foreign Property Participation (1988) (Act No. 173/1988), as amended in 1990 (Act No. 112/1990)
	Act on Joint-Stock Companies, 18 April 1990 (Act No. 104/1990)
	Law on the Privatization of State Ownership of Certain Property to Other Legal or Natural Persons, 25 October 1990
Law on the Terms of Transfer of State Property to Other Persons, 26 February 1991	

Table. Recent selected laws and decrees on foreign direct investment, privatization and accounting and auditing in Central and Eastern Europe (continued)

Country or area	Law or decree
Hungary	Act No. VI of 1988 on Economic Associations
	Act No. XXIV of 1988 on the Investment of Foreigners in Hungary as amended
	Act No. XIII of 1989 on the Transformation of Economic Organizations and Business Associations
	Act XCVIII of 1991: Amendments of Act XXIV of 1988 on the Investment by Foreigners in Hungary
	Law No. 5 of 1990 on Private Business Ventures
	Law No. 6 of 1990 on Stock Exchanges and Securities
	Law No. 7 of 1990 on the State Property Agency
	Law No. 9 of 1990 on the Protection of Assets of the State-Owned Companies
	Law No. 53 of 1990 on the Amendment of the Law on State Property Agency (Law No. 7 of 1990)
	Law No. 74 of 1990 on Privatization of the Small Trade Services and Catering Industry
	Decree No. 63 of the Council of Ministers on the Local Property Agencies
	Decree No. 30, 1989 (VII-I) on Property in the Balance Sheet
	Act No. XVIII of 14 May 1991 on Accounting (effective January 1992)
Lithuania	Law on Foreign Investment in the Republic of Lithuania of 29 December 1990
	Decree of Finance Ministry on Accountancy by Legal Persons and Other Economic Entities, 1 January 1991

Table. Recent selected laws and decrees on foreign direct investment, privatization and accounting and auditing in Central and Eastern Europe (continued)

Country or area	Law or decree
Poland	Law on Economic Activity with the Participation of Foreign Parties of 23 December 1988 (<u>Dziennik Ustaw</u> No. 1, item 325), as amended on 23 December 1989
	Law on the Privatization of State Enterprises of 13 July 1990 (<u>Dziennik Ustaw</u> No. 51, item 298)
	Law on the Creation of the Office of the Minister of Ownership Transformation, 13 July 1990
	Law on Companies with Foreign Participation, 14 June 1991
Romania	Decree Law No. 54 on the Organization and Development of Economic Activities Based on Free Initiative, 5 February 1990
	Decree Law No. 96 concerning Measures for Attracting Foreign Capital Investment to Romania, 14 March 1990
	Decree Law No. 122 on the Authorization and Functioning in Romania of Representations for Foreign Trade Companies and Economic Organizations, 24 April 1990
	Law on Commercial Companies of 16 November 1990 (No. 31/1990)
	Law on Restructuring State Economic Units as Autonomous Units and Commercial Companies of 31 July 1990
	Law on Privatization of Companies, 16 August 1991
	Law Concerning the Status of Foreign Investment, 29 March 1991
	Decree Law No. 201/1990, implementing No. 54 and giving rules for Preparation and Standardization of Accounts, a Model Balance Sheet and Chart of Accounts
	Decree Law No. 945/90 on Accounting Practices for Share Capital, Assets, Liabilities, Changes in the Chart of Accounts, Content and Operation of New Accounts
	Law 31/91 on the Balance Sheet and Income Statement

Table. Recent selected laws and decrees on foreign direct investment, privatization and accounting and auditing in Central and Eastern Europe (continued)

Country or area	Law or decree
Yugoslavia	Law on Foreign Investment, 31 December 1988
	Law on Securities of 20 October 1989
	Money Market and Capital Market Law of 20 October 1989
USSR	Decree of the Council of Ministers of the USSR, 13 January 1987 (49/1987) on Joint Ventures with the Participation of Soviet Organizations and Companies from Capitalist or Developing Countries
	Decree of the Council of Ministers of the USSR, 19 June 1990 (No. 590/1990), on Joint-Stock and Limited Liability Companies
	Presidential Decree of 26 October 1990 on Foreign Investment in the Soviet Union
	Law on Enterprises, 1 January 1991
	Law on Fundamentals of Legislation on Investment Activities, 1 January 1991
	Law on Fundamentals of Denationalization and Privatization of Enterprises, USSR Supreme Soviet, 1 July 1991
	Law on Fundamentals of Legislation on Foreign Investments in the USSR, USSR Supreme Soviet, 5 July 1991
	Circular No. 53/13-09, USSR Ministry of Finance and Central Board of Statistics, on Accounting and Bookkeeping of Joint Ventures, 27 February 1987; amended 8 August 1989
	Directive No. 74 of the USSR Ministry of Finance, Accounting Regulations for Joint Ventures, 6 June 1990
	USSR Ministry of Finance, Accounting and Reporting by Enterprises, Associations and Organizations, 12 October 1990
	USSR Ministry of Finance, USSR State Plan, USSR State Committee on Prices and USSR State Committee on Statistics: Basic Provisions to Determine the Expenses to be Included in the Cost Price of Products at Enterprises of the USSR, 30 November 1990

Table. Recent selected laws and decrees on foreign direct investment, privatization and accounting and auditing in Central and Eastern Europe (continued)

Country or area	Law or decree
USSR (continued)	Directive No. 142, USSR Ministry of Finance, on Special Features of the Calculation of the Costs of Production (Works, Services) of Joint Ventures Established in the USSR, 29 December 1990
	USSR Ministry of Finance, Scope and Methods of Annual Accounting and Reporting in Enterprises, Associations and Organizations for 1991, 17 June 1991
Russian republic	Law of the RSFSR on Enterprises and on Business Activity, 25 December 1990
	Law on Foreign Investments, 4 July 1991
	Law on Privatization of State and Municipal Enterprises, 3 July 1991
Kazakhstan	Law on Foreign Investment, effective 17 January 1991
	Law on Freedom of Economic Activities and Development of Business Undertakings Within the Kazakh SSR, 15 January 1991
	Law on Basic Principles of Kazakh SSR Foreign Economic Activities, 17 January 1991
Uzbekistan	Law on Business Undertakings in the Uzbek SSR, USSR Supreme Soviet, 15 February 1991
	Law on Enterprises in the Uzbek SSR, USSR Supreme Soviet, 15 February 1991
	Law on Foreign Investment in the Uzbek SSR, USSR Supreme Soviet, 14 June 1991
Ukraine	Law on Economic Independence
	Law on Foreign Economic Activity
	Law on Foreign Investment

25. Using international accounting standards as far as possible the USSR completed modernization of its chart of accounts, which was approved by the USSR Ministry of Finance for use by all enterprises. It will be disseminated to all republics and some have expressed interest in taking it over in order to speed their transition to a market economy. However, the fact that some foreign investment legislation at the republic level allows foreign investors to use their home country accounting rules will lead to a duality in practices depending on whether the enterprise in question is domestic or foreign.

26. Advice on accounting reform is being given by accounting experts from every quarter, including individual consultants, national teams, regional teams and international teams. The Organisation for Economic Cooperation and Development has held two meetings, one in September 1990 to discuss general issues in East-West accounting and one (with FEE) in November 1991 to discuss privatization issues. FEE has developed an accounting and auditing project for Bulgaria and also organized a conference (in Budapest in October 1991) with the Council of Europe on the role of the accountancy profession. The activities of FEE in this sphere demonstrate the willingness of its members to work together in the interests of Europe as a whole rather than pursue national interests. The United Nations Centre on Transnational Corporations (UNCTC) has also taken an international approach and has involved a number of international experts from the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR), the International Federation of Accountants and the international accounting firms in its task force in the USSR.

27. Technical cooperation projects in accounting will increase as more funding becomes available from international, regional and national sources. Donors might wish to ensure that those involved in such projects have a basic knowledge of former accounting systems and the legal, political and social environment within which Eastern accountants must function. It is important that foreign experts realize that the former system, which was very detailed, must be replaced by one that not only is detailed but also gives adequate guidance on the use of new procedures. This is largely because Eastern accountants and bookkeepers (given the long period of isolation they have endured) are simply not in a position to implement a system that requires constant judgements as to the appropriate accounting treatment. The new accounting and draft laws of Central and Eastern Europe vary in terms of detail and guidance given, in particular the Hungarian law and the draft chart of accounts of the USSR (which are both very long and complete) and the Czech and Polish laws (which are very short). Since those laws do not address many issues, it will be difficult to ensure comparability in practice at the enterprise level. Hopefully additional guidance will be issued in order to facilitate uniform treatment.

28. It is also important that international, regional and national donors and experts exchange information on a periodic basis so that their efforts complement each other's and are not at cross purposes. A situation where efforts were at cross purposes would make an already chaotic situation worse. The Group may wish to discuss the responsibilities of the international community in this context.

II. KEY ISSUES IN INTERNATIONAL ACCOUNTING

29. The present section reviews progress being made on key issues or problems in international accounting. Many of the issues are complex and continue to defy agreement on the proper accounting treatment. There are three continuing topics - new financial instruments, intangible assets and environmental accounting - and three new topics: accounting by financial institutions, the responsibilities of auditors and valuation problems in privatization.

A. New financial instruments (NFI)

30. The Group has had the present topic under review since its seventh session and the main issues were explored in E/C.10/AC.3/1990/9 and E/C.10/AC.3/1991/2. The International Accounting Standards Committee (IASC) published ED 40, Financial Instruments, in August 1991. The exposure draft follows the structure of the previous statement of principles and deals with:

- (a) Recognition of financial assets and liabilities and discontinuing recognition;
- (b) Classification as a liability or as equity;
- (c) Measurement;
- (d) Disclosure.

31. It is intended that the proposals be applied to all enterprises, not just financial institutions. The exposure draft proposes that a financial asset or liability should be recognized in the balance sheet when the risks and rewards associated with that asset or liability have been assumed and the asset or liability can be reliably measured. Recognition ceases when these conditions no longer exist, for example, on transfer, exercise, discharge, cancellation or expiry of the underlying rights or obligations.

32. For purposes of balance sheet presentation, the exposure draft proposes that the classification of a financial instrument as either a liability or equity should be based on the substance of the instrument in relation to the definitions of financial liability and equity instrument. When the instrument commits the issuer to deliver cash or other financial assets to the holder in repayment of the principal amount, it should be classified as a liability. The proposals also set out criteria for offsetting a financial asset and a financial liability and reporting only the net amount. Each financial instrument should be classified in one of three categories: investing or financing (for items held for the long term), operating (for items not intended to be held for the long term and not designated as hedges) and hedging.

33. Under the benchmark treatment, investing and financing assets and liabilities are measured on a historical cost basis. A financial asset's carrying amount is written down when there is no persuasive evidence that it will be recoverable in the foreseeable future. This decline should be reversed when there is a recovery in the value of the asset that is likely to persist. Operating assets and liabilities are measured at fair value; changes in fair value are recognized in income as they arise. Fair value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's-length transaction. Hedging items are measured on the same basis as the positions that they hedge.

34. Under the allowed alternative treatment, all financial assets and liabilities are measured at fair value, provided that it is practicable to do so; changes in fair value are recognized in income as they arise. Developing-country experts mentioned that the split into long-term instruments (investments) and short-term instruments (operating instruments) might be difficult since the decision to hold an instrument is tentative and can be judged final only ex post facto. In addition, many developing countries that do not have well-developed primary/secondary money markets may find reliable fair-value valuation of new financial instruments very difficult. Thus, it seems more practical to support the proposal to use historical costs for both long-term and short-term financial instruments, but to require disclosure at fair-market value for all new financial instruments whenever possible.

35. To assist users of financial statements in understanding how transactions in financial instruments affect the amount, timing and certainty of future cash flows, the proposals require a number of disclosures, grouped by appropriate classes of instruments, including:

- (a) The nature, extent, terms and conditions of the instruments;
- (b) The exposure to interest rate risk, including contractual repricing or maturity dates and effective interest rates;
- (c) The exposure to credit risk, including maximum exposure, ignoring the value of any collateral and any concentrations of credit risk;
- (d) Information about the fair value of assets carried on a historical cost basis.

36. The exposure draft has been developed in conjunction with the Accounting Standards Committee of the Canadian Institute of Chartered Accountants, which published a similar exposure draft at the same time. The Canadian exposure draft does not include the allowed alternative for the measurement of financial assets and financial liabilities.

37. The Financial Accounting Standards Board in the United States has completed the first phase of its project on new financial instruments and has issued Statement of Financial Accounting Standard No. 105: Disclosure of Information about Financial Instruments with Off-Balance-Sheet Risk and Financial Instruments with Concentrations of Credit Risk in 1990.

38. This statement establishes the following requirements for all entities for disclosure of information principally about financial instruments with off-balance-sheet risk of accounting loss:

- (a) The face, contract, or notional principal amount;
- (b) The nature and terms of the instruments and a discussion of their credit and market risk, cash requirements and related accounting policies;
- (c) The accounting loss the entity would incur if any party to the financial instrument failed completely to perform according to the terms of the contract, and the collateral or other security, if any, for the amount due proved to be of no value to the entity;
- (d) The entity's policy for requiring collateral or other security on financial instruments that it accepts and a description of collateral on instruments presently held.

This Statement also requires disclosure of information about significant concentrations of credit risk from an individual counterparty or groups of counterparties for all financial instruments. FASB has also issued discussion memoranda on different aspects of its financial instruments projects, and further exposure drafts and statements are anticipated.

B. Accounting for intangible assets, including goodwill

39. OECD continued its work on intangible assets and held a round table in May 1991 to determine if the various national standard-setters were any closer to reaching consensus on an international standard on accounting for intangible assets. The growing importance of intangible assets to the successful conduct of business in a variety of industries accentuates the need for guidance on appropriate accounting treatments. 11/

40. According to one financial analyst the solutions are difficult because of a fundamental conflict with one purpose of Western accounting - the recording of actual transactions. Purchased goodwill has to be recorded and accounted for in so far as a transaction has taken place. However, some financial analysts would rather not have purchased goodwill recorded because the purpose of a balance sheet is not to reflect present value of future earnings, but rather values of assets. The concept of goodwill is related to the difference between book value of net assets and market value of the business, but analysts would rather not have goodwill on the balance sheet. 12/

41. While internally generated goodwill is not recognized by any country, other internally generated intangibles, such as patents, trade marks and licences, are normally given recognition. While research and development expenditures can be recognized as an intangible asset, in most countries such recognition is often restricted to development costs, provided criteria concerning the viability of the project are met. A variety of treatments are

applied to the measurement of intangibles, but when purchased intangibles are generally accepted as assets subject to amortization. However, in some countries it is possible to treat these items as assets without amortization, in other words, a finite life for such assets is not assumed. Only Switzerland and the United Kingdom of Great Britain and Northern Ireland allow immediate write-off against reserves of all intangible assets. France, Germany, Italy, Luxembourg and Sweden allow immediate write-off only in the case of goodwill, which conforms to the EC directives; however, the IASC ED 32 proposals would eliminate the immediate write-off method altogether. Another area of accounting diversity is the length of time for amortization. That length of time either arbitrarily ranges from 5 to 40 years or comprises the asset's "useful economic life". The latter approach is supported by the EC directives and IASC E 37, Research and Development Activities. 13/

42. The IASC ED 32 proposal to amend IAS 22 on accounting for business combinations would require a uniform treatment of purchased goodwill. Goodwill arising on a business combination should be recognized as an asset and amortized over its useful life. The amortization period should not exceed 5 years from the date of the acquisition unless a longer period, not exceeding 20 years, can be justified. IASC is continuing its research on this topic and has not published anything subsequent to its proposed statement of principles on accounting for long-term intangible assets, which was considered by the IASC Board in November 1990. Intangible assets covered by the statement included computer software, copyrights, know-how, franchises, licences, patents, publishing rights, brand names, trade marks and customer lists. Excluded from the statement were goodwill arising on business combinations and research and development costs. Criteria were proposed for recognition and de-recognition, and it was suggested that they be measured at historical cost and amortized over a period not exceeding 5 years unless a longer useful life that should not exceed 20 years could be justified. This choice was based on IASC's perception that asset lives "although possibly indeterminate, are ultimately finite". Subsequent to issuing this statement the IASC set up a separate project on long-term intangible assets. FASB has just issued a discussion memorandum on consolidations that is relevant to business combinations. Furthermore, the United States has a proposal to allow tax deductibility of goodwill in the same manner as other intangibles. The Accounting Standards Board of the United Kingdom is also expected to reconsider all intangibles. Moreover, as consolidations become more prevalent the area is expected to gain greater attention.

C. Environmental accounting

43. There is fairly widespread concern among accountants, auditors, regulators, insurance companies, banks and shareholders about the lack of information disclosure regarding the environmental expenditures and liabilities of enterprises operating in sectors with significant environmental impacts. Despite increased guidance by a number of international and national bodies, the information given remains anecdotal and does not allow one to determine the impact of environmental protection measures on the financial

position and performance of the enterprise even when that impact is material. It is estimated that at least \$675 billion will be required to clean up existing "Superfund" landfill sites in the United States. Costs for sites cleaned so far have ranged from \$20 million to \$40 million per site. In Western Europe, the clean-up bill is expected to be at least \$65 billion, and in Eastern Europe, the environmental damage has yet to be quantified. These are just a few examples to illustrate that new kinds of liabilities are being created and that the frequency and magnitude of some liabilities that were minor in the past may be increasing rapidly. All in all, the world is now likely to be facing at least a trillion dollar environmental obligation. 14/

44. The Investor Responsibility Research Centre did an extensive examination of the 10K Standard & Poor's 500 companies and found that 36 more companies mentioned the environment in their 10Ks in 1989 than in 1988. This increase was in response to a May 1989 release in which the United States Securities and Exchange Commission (SEC) explained how corporations should address liabilities in Management's Discussion and Analysis of Financial Condition and Results of Operations. In total, 327 of the 500 companies provided disclosure in 1989. One hundred ten provided disclosure on environmental expenditures; 117 disclosed some information about their Superfund status and 114 disclosed government proceedings related to the environment. The level of detail in the information disclosed was generally very low. Though SEC requires disclosure of all material environmental expenses, it does not regulate the format that companies use to present those expenditures. As a result, there is little consistency in the way companies describe their environmental expenses. The Securities and Exchange Commission has found it necessary to seek an information-exchange agreement with the Environmental Protection Agency so that it can identify inadequate or incorrect corporate statements. 15/

45. Price Waterhouse also undertook a survey of corporate accounting practices in reporting the costs of past, present and future activities related to the environment. The report offered guidelines to improve the structure and consistency in accounting for environmental costs. It should be noted that the survey (of 125 companies) focused on when they reported, not on what they reported or how. One hundred and four respondents said that they assigned responsibility for environmental affairs to the legal department and possibly indicated that their main concern was their legal responsibilities. Fifty-three per cent of respondents stated that they recorded environmental liabilities for prior-period waste only after a settlement offer was made by the company, it was actually being cleaned up or when a facility was sold, disposed of or abandoned. Sixty-eight per cent of respondents indicated that they did not accrue currently for future environmental expenditures for reclamation, waste water pond closure and the ultimate closure of production sites. In commenting on this unwillingness to accrue, Price Waterhouse said,

"Price Waterhouse believes that as environmental regulations evolve in the 1990s corporate concern for the cost of complying with those regulations will significantly increase. As a result, accruing currently for determinable future obligations may become a more common practice." 16/

46. During its ninth session the Group noted that there seemed to be a growing awareness of the need for better information disclosure and it was suggested that the Group continue to review the content of the reports of the Board of Directors. There was also a need to encourage others to start or continue work in the area of environmental accounting. In responding to these suggestions, the United Nations Centre on Transnational Corporations undertook a review of the annual reports of 200 transnational corporations and compared the typical best practice with the Secretary-General's benchmark recommendations. The survey covered the disclosure of relevant environmental issues and policies, environmental improvements, emission targets, impact of government legislation, proceedings under environmental laws, financial effects of environmental protection measures, operating costs and amount of costs capitalized. The results of this work are discussed in E/C.10/AC.3/1992/3.

47. In addition, the Centre put together an environmental accounting bibliography, which should facilitate the research of others in the field. The bibliography contains an essay on the main issues, an abstract of major writings and a complete listing of all books and articles by category.

48. The Commission of the European Communities has been addressing the general topic of environmental reporting for some time. Recently the decision was taken to address that topic also in the accounting area. The fifth action programme on the environment intends to look at ways and means to take action on the following issues:

(a) What information about the environmental policy and activities of an enterprise should be disclosed in its annual report;

(b) How an enterprise has to account for contingent environmental liabilities;

(c) How expenses on environmental programmes have to be defined, should an enterprise have to disclose those expenses, in order to separate them from other expenses.

Those three issues cover many of the items on the list of recommendations of the Group. Thus, although there have been no disclosure requirements or recommendations for the items as yet, it is conceivable that at the community level such requirements or recommendations will be issued. The extent and amount of detail of the data remain to be decided upon.

49. The European Community (EC) has agreed on plans for a system of voluntary audits by companies on how their activities affect the environment. Each European Community country would set up a register of companies carrying out an eco-audit and appoint one independent body to accredit the eco-auditors. Companies taking part and conforming to the EC-agreed green auditing norms would be entitled to use a logo on their annual reports, letterheads and advertising. The European Community plans to issue a regulation by the end of 1992; the system would come into operation by 1993. This means that member

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countries will have to develop professional qualifications and accreditations for environmental auditors.

50. The Canadian Institute of Chartered Accountants (CICA), the Institute of Chartered Accountants in England and Wales and the United States Financial Accounting Standards Board have begun projects or are considering proposals on environmental accounting. CICA will complete two reports on environmental accounting and environmental auditing in mid-1992 and has also set up a strategy-steering group to discuss what the accounting profession should be doing. The Institute of Chartered Accountants in England and Wales is aiming to complete its study in 1992. The study is being undertaken by a multidisciplinary group that is examining resolved and unresolved issues. The work has a very practical orientation and where agreement is found on the treatment for a problem and the group is also in agreement the practice will be commended. This topic will also be discussed at the World Congress of Accountants.

51. Preparations for the United Nations Conference on Environment and Development, to be held in Brazil in June 1992, are under way. The Preparatory Committee for the United Nations Conference on Environment and Development has received several contributions on environmental accounting at both the macro and the micro levels. This work focuses in particular on accounting for sustainable development, which goes much beyond the work being done to improve environmental information disclosure in financial statements and annual reports. The main focus of the UNCTC project on accounting for sustainable development is to help transnational corporations develop better tools, particularly in the area of financial management, so that they can become better stewards. Although current accounting practices record "market" transactions that have a monetary value, they do not account for the use of public goods such as air and water because these are largely "free" goods. Accounting for sustainable development would include the full cost of the enterprise's use of natural and environmental resources whether or not a market transaction occurred. This internalization of all the environmental costs would have an impact on the enterprise's bottom line. New accounting rules and prototype statements would have to be developed for the inclusion of these costs. In addition, new valuation methods for quantifying the unrecorded costs of non-sustainable development would have to be devised. This would require the redefinition of asset and liability boundaries, including quantification of the extent of resource depletion and degradation due to a given enterprise's activities. A key output of this project will be a set of resource-based accounts that measure an enterprise's use and management of environmental capital. 17/

52. It must be admitted that such work is at present very far removed from mainstream corporate concerns. Sir Peter Parkers, Chairman of the British Institute of Management, notes that "the definition of sustainable development is still likely to prove elusive for a harassed management dealing with problems of profit, jobs and shareholders". Nevertheless, other groups have undertaken similar projects and the Business Council for Sustainable Development (Geneva) is creating a framework for corporate reporting on

sustainable development that would require a given enterprise to do the following: (a) develop a policy on sustainable development, (b) assign responsibility for its implementation, (c) set up a system for achieving that policy, (d) monitor the system and (e) report on the policy's results.

D. Accounting for financial institutions and the responsibilities of auditors

53. The Group, since its inception, has consistently deferred consideration of accounting for financial institutions. Given recent experiences on the national and international level, the Group may wish to give guidance in the future. It became obvious during the course of 1991 that bank regulators along with accountants and auditors have not kept pace with the growing complexity of international finance and in particular with the activities of transnational banks. The key to successful bank regulation is knowing that assets and liabilities are fairly stated. Lack of information disclosure on bank structure and on related party transactions makes regulation of transnational banks such as the Bank of Credit and Commerce International (BCCI) difficult. The main regulatory body at the international level is the Basel Committee on Banking Regulations and Supervisory Practices, which is composed of central bankers and bank supervisors. The Basel Concordat (1975; amended, 1983) laid down the division of responsibility between bank supervisors in the home country and in the host country of a transnational bank and also established rules for supervision on a consolidated basis, covering a banking group as a whole, and standards for capital adequacy. Its main concern has been capital adequacy and it has established a minimum capital/asset ratio of 8 per cent. However, without adequate knowledge of bank structure and related party transactions, it is difficult to enforce such a minimum rule.

54. As at 31 December 1989, the BCCI group was composed of 34 banking units/finance companies in 73 countries with over 423 offices with more than 14,000 employees of 83 nationalities (including over 200 executives with experience averaging 20 years or more). The group had 1.3 million customers (of which 250,000 were borrowing customers and 3,000 were core customers) and an asset base of \$23.5 billion, which included \$7.8 billion in United States dollars and the balance of \$15.7 billion in 52 local currencies of the countries where BCCI operated.

55. BCCI reportedly maintained nearly 50 per cent liquidity compared to 15-20 per cent for most transnational banks and had fixed assets of \$246 million and investment in non-consolidated subsidiaries of \$65 million (including units in Switzerland and Kuwait). Each country unit was operating on a self-sufficient basis, duly regulated and audited up to the year ending 1988/1989.

56. It was a substantial net placer of funds in the international market (having borrowed \$3.2 billion and placed \$9 billion). This transnational bank had become one of the 10 largest banking networks: it handled global trade of

\$20 billion and provided a bridge between the markets of the developed and developing world. With the expected liberalization of trade in services as a result of the Uruguay Round and deregulation, it is most likely that more transnational banks will emerge in developing countries and that they will inevitably need regulation. Such regulation might be accomplished through international bank standards.

57. In the absence of effective international standards, BCCI's founder split the bank into dozens of small components so that no one regulator or auditor managed to put together the picture of its diverse structure for over a decade. Its main operations were carried out in weak jurisdictions with strict bank secrecy laws. In addition, its audit was split between two international firms. The college of regulators from eight countries, formed by the Basel Committee to oversee BCCI, was ineffective, with BCCI not owing a consolidated report to anyone. BCCI began to attract attention in 1985 when it incurred huge losses on its financial trading. The auditors also noticed that BCCI had not properly recorded those losses but dismissed the mistake as incompetence rather than fraud. However, by 1988 a sole auditor had been appointed and by the spring of 1990 that auditor had evidence of fraud. Nevertheless, it chose not to qualify its report and warn shareholders that the accounts did not present a true and fair view of BCCI's financial position and performance, although it did avail itself of its legal right to warn national bank regulators.

58. It was a full year later when the auditor was asked by a national bank regulator to begin an investigation. It allegedly found that BCCI was responsible for one of the most complex deceptions in banking history with its sham loans, unrecorded deposits, secret files and illicit share-buying schemes. One government authority, in commenting on the affair said, "... the rapid move to the global market makes this parochialism more and more an unsatisfactory indulgence. ... Sometimes individual subsidiaries in individual countries can look strong but the group structure reveals cross-holdings and cross-lending which is in practice weak". 18/ It is clear that there is a need for an international standard for transnational bank accounting and auditing that has a strong requirement for information disclosure. There is also a need for international cooperation to set, and collectively enforce, such a standard. Lastly, the legal and professional responsibilities of the auditors should be increased so that they can share information quickly with regulators without breaching client confidentiality guidelines.

E. Accounting and valuation problems arising during privatization

59. Privatization exercises are being undertaken worldwide. They are particularly numerous in developing countries and countries in transition. Last year the Group reviewed the various motivations that underlie privatization. Within the context of these exercises, many accounting problems have arisen. Therefore, the Group decided to take up this issue for

the purpose of not so much discussing international standards as identifying solutions to those problems. Very often accounting information is so deficient in some enterprises that it is impossible to draw up commercial balance sheets and income statements for interested buyers. More important, there is often little relationship among the book value of the assets, the value of the enterprise as a going concern and its sales price. It is particularly difficult to value assets that have never been valued before or that are not for sale, such as land. In many cases the situation is complicated by the introduction of new accounting concepts such as that of intangibles. For example, it is hard for accounting experts in countries in transition to deal with goodwill, particularly where there is a large divergence between the value of the enterprise as a going concern and the sales price. There is even a reluctance to undertake a thorough valuation of enterprises to be privatized where such valuation would slow down the privatization process. In some cases speed has become the overriding priority. Where the goal is complete divestiture as soon as possible, valuation and equity considerations are neglected. Eventually inadequate valuations result in political and social problems when citizens charge that the exercises have been neither transparent nor fair. Hyperinflation can also render unadjusted financial statements meaningless. There are also a number of problems regarding information disclosure. Prospectuses are often inadequately prepared for first-time or unsophisticated investors. In countries in transition information could be given comparatively, using the old, familiar formats as well as the new accounting ones. Regarding post-privatization information, special-purpose reports might be necessary for a limited time in order to let interested parties know that the exercise's original objectives have been achieved.

III. ACTIVITIES OF INTERNATIONAL AND REGIONAL ORGANIZATIONS

60. The following section is a review of the activities of international and regional organizations in the area of standard-setting and accountancy development.

A. International Accounting Standards Committee (IASC)

61. Much of the work of IASC involving its project to reduce accounting diversity has been discussed in section one. Additional information is provided below regarding its other ongoing projects.

Cash flow statements

62. Exposure draft 36, Cash Flow Statements, was published in July 1991 and is open for comment until December 1991.

63. E 36 proposes that enterprises should present a cash flow statement in place of a statement of changes in financial position. The cash flow statement should report the inflows and outflows of cash and cash equivalents

during the period. These cash flows should be classified by operating, investing and financing activities. E 36 encourages users to report cash flows from operating activities using the direct method. Under this method, an enterprise reports the gross cash receipt or payments arising from each operating activity. E 36 proposes that an enterprise should report separately major classes of gross cash receipts and gross cash payments arising from investing and financing activities. However, E 36 recognizes that gross reporting is not relevant for some of a financial institution's activities.

64. Investing and financing transactions that do not require the use of cash and cash equivalents, such as conversion of debt to equity, should be disclosed outside the cash flow statement.

65. E 36 proposes the disclosure of the components of cash and cash equivalents and a reconciliation of these amounts with the equivalent items in the balance sheet. It also proposes specific classification and disclosure requirements for unusual items, interest and dividends, taxes on income, and acquisitions and disposals of subsidiaries or other businesses. While many financial valuation models currently focus on various forms of cash flow, the cash flow has its limitations as a measure of value changes. The focus on cash flows results from perceived misgivings with reported net income and balance sheet measures in many countries. Yet a cash flow statement, while useful as a basis for evaluating liquidity constraints, has its own set of measurement problems and can be easily manipulated from period to period. The measurement and interpretation are particularly acute in transnational corporations, as cash flows of foreign subsidiaries have to be translated at the exchange rate on the date of each transaction before inclusion in the consolidated statements.

Intangibles

66. In November 1990, the IASC Board identified further issues on intangibles for consideration by the Steering Committee. It is likely that the Board will reconsider the project again in 1992.

Earnings per share

67. The Board approved a point outline in November 1990. It has asked the Steering Committee to prepare a statement of principles, which will probably be distributed in mid-1992. The statement of principles will propose that enterprises with publicly traded ordinary shares should disclose basic and fully diluted earnings per share and will include definitions of ordinary shares outstanding and earnings and provide guidance on the calculation of both basic and fully diluted earnings per share.

Conference

68. In June 1991, IASC organized, together with the Fédération des experts comptables européens (FEE), a conference of the representatives of standard-setting bodies in over 20 countries to discuss the objectives and concepts

underlying financial statements. Various ideas were put forward for further cooperation between IASC and standard-setting bodies and the conference will probably be followed by another in the near future.

B. International Federation of Accountants (IFAC)

69. The recurring work programme of IFAC is carried out by the Council and its five major standing committees: Education, Ethics, Financial and Management Accounting, International Auditing Practices and Public Sector.

70. During the year, the IFAC Council and committees and subcommittees held 38 meetings throughout the world.

71. The Education Committee continued its efforts to monitor developments in professional education. Given the changes in make-up of the pool of human resources that the profession can reasonably expect to recruit, the Committee undertook a major consolidation of existing guidelines related to pre-accreditation education. Aside from the mechanical process of consolidation, the Committee also made a significant reassessment of content, and the result is a comprehensive - and more efficient - guideline. In future stages the Committee will address post-qualification education issues. Other significant projects have been the Committee's efforts to produce a guideline on the teaching of ethics, a subject whose international demand increases each year, and a discussion paper on "Education of the Accountant in the Year 2000 - and Beyond".

72. With a comprehensive Guideline on Ethics for Professional Accountants now in place, the Ethics Committee is concentrating on refining that document, especially as it relates to the International Organization of Securities Commissions (IOSCO). IOSCO acknowledges the Ethics Committee's role as the sole international organization that has dealt with cross-border issues and suggested certain modifications. Among its revisions, all of which were responsive to IOSCO concerns, was additional guidance on interests in non-clients, former partners and litigation issues. The Ethics Committee has also worked closely with the Education Committee on the exposure draft Professional Ethics for Accountants, the Educational Challenge and Practical Applications. Future direction will emphasize monitoring ethical developments throughout the world and involving the Ethics Committee in specific issues where an international perspective is needed.

73. With more than half of IFAC's membership not in public practice, a key focal point for this group is the Financial and Management Accounting Committee (FMAC). Among the more significant projects addressed during the year were:

(a) The cost of capital, its elements and how they are applied in practice;

(b) Management control of projects, a subject particularly important for the question of accountability and controls, which has taken on such an international character;

(c) Corporate financial performance, with the object of providing ideas on the various ways that performance can be measured.

74. The International Auditing Practices Committee (IAPC) continued its standard-setting agenda and the following documents were released:

(a) Two related services (RS) guidelines dealing with engagements to perform agreed-upon procedures and engagements to compile financial information (as the range of services expands beyond the traditional attest function, these guidelines will be particularly useful);

(b) Revisions and addenda to existing guidelines on analytical procedures and audit evidence, in response to specific concerns.

75. In a very significant move just after year-end, the Committee agreed that guidelines would be renamed international standards on auditing. The Committee felt that the term standard more appropriately describes IFAC's authority as an international standard-setting body and should also improve user perception of the status of documents and encourage wider use of those documents. The Committee also authorized a substantial codification and reassessment of the existing standards, commensurate with the upgrading of status. As a first step in this process, a topical index, following the audit process, was approved.

76. The youngest IFAC committee, the Public Sector Committee (PSC), had completed five years of existence. The public sector is a significant part of the economy, particularly in the developing world, yet developing countries often do not have sufficient resources to address the problem of accounting by public institutions. The Committee issued one guideline on Applicability of International Standards on Auditing to Audits of the Financial Statements of Government Business Enterprises, a very important study entitled "Financial reporting by national Governments" and a Selected Bibliography of Public Sector Accounting and Auditing Material.

77. IFAC accelerated its efforts as a spokesman for the international profession, particularly through such international organizations as:

(a) The International Capital Markets Group (ICMG) (co-founded by IFAC in 1989), which produced several papers on regulatory issues. IFAC contributed to those papers and also finally produced a draft on harmonized accounting standards that will be the basis for a more extensive study on the effects of different standards on the cost of capital. IFAC is particularly pleased to be taking the lead in this very worthwhile undertaking;

(b) The International Organization of Securities Commissions (IOSCO), which, while ICMG represents the private sector, represents the government

regulators of exchanges. IFAC has stepped up its efforts to win acceptance of IFAC auditing and ethics pronouncements for multinational securities offerings. The differences that existed have been minimized and both IFAC and IOSCO have an objective of a mutually acceptable set of standards, to be reached in October 1992, about the time of the World Congress of Accountants;

(c) The Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, with which IFAC participated actively in March 1991, at its ninth plenary session; in February 1991, at a special conference held in Moscow designed to familiarize Soviet accountants with the international accountancy profession and IFAC's standards; in mid-October 1991, at its International Conference on Accountancy Development in Africa, held in Dakar; and in late October 1991, at the meeting of the International Task Force on Improvements in Accounting for Enterprises in the USSR, held in Moscow.

C. Working Group on Accounting Standards (OECD)

78. In 1991, the OECD Working Group on Accounting Standards, under the Partners in Transition (PIT) programme of the OECD Centre for Cooperation with European Economies in Transition, extended technical assistance to countries in transition in a number of ways:

(a) The proceedings of the OECD seminar on accounting reform in Central and Eastern Europe, which was held in Paris in September 1990 with the participation of Czechoslovakia, Hungary, Poland and the USSR, was published by the OECD Centre for Cooperation with European Economies in Transition;

(b) In July 1991, experts from the Working Group on Accounting Standards met with officials of the Czech, Slovak and Federal Ministries of Finance in Prague to discuss a draft accounting law, as well as a proposal of the Czech National Council concerning auditors and their activities;

(c) Following an invitation by the Hungarian Ministry of Finance, the OECD organized a Workshop on the Valuation Aspects of Privatization, which took place in Budapest in November 1991. In addition to looking at the specific accounting treatment of fixed assets and current assets, the Workshop focused on the issue of business valuation. The presentations made during the Workshop will be published early in 1992 as part of the Centre's series on Central and Eastern Europe.

79. The OECD Working Group on Accounting Standards continued in 1991 to address issues promoting international harmonization of accounting standards and practices. It examined a working document on the mutual recognition of financial statements and agreed that wider acceptability of the principle of mutual recognition of financial statements was not incompatible with the seeking of greater harmonization and comparability.

80. A Round Table of Intangible Assets, highlighting the accounting discrepancies resulting mainly from different national approaches and treatment of intangible assets, was held in Paris in March 1991. The proceedings of this Round Table, together with a survey of the practices in this area of member countries, will be published in 1992.

D. European Community (EC)

81. In 1991, the Commission of the European Communities asked its Accounting Advisory Forum to address the following accounting topics:

- (a) Foreign currency translation;
- (b) Accounting for government grants;
- (c) Accounting for lease contracts.

82. Those topics were discussed at two meetings of the Forum based on working documents that aim at a further harmonization of accounts in the European Community.

83. In September 1991, a common position by the Council of Ministers and the Commission was reached on the amended proposal for a directive on the annual accounts and consolidated accounts of insurance undertakings. The directive is now to be discussed again in the European Parliament. Adoption is expected in early 1992.

E. Confederation of Asian and Pacific Accountants (CAPA)

84. The CAPA Accounting Education Project originated at the 1984 Asia Pacific Conference on Accounting Education for Development, which was held in Manila and supported by the Asian Development Bank (ADB) and the World Bank. IFAC and CAPA were significant participants in the Conference and the importance of accounting-related skills in the process of social and economic development was fully recognized. Since then IFAC has promulgated guidelines for the training of accounting technicians (International Education Guideline (IEG) 7), and ADB, in association with CAPA, has developed teaching resource materials to support the IFAC guidelines. Preliminary work has also been undertaken to assess the need for developing a regional accounting education resource centre. After prolonged discussions between ADB and CAPA and among CAPA Executive Committee members, early in April CAPA prepared and submitted to ADB the application for funding the Accounting Education Project, Phase II, which will be an in-depth feasibility study of a regional accounting education resource centre for the Asian and Pacific Region. The total estimated cost of this project is presently being assessed by the Asian Development Bank, and is expected to be around \$385,000.

F. Eastern, Central and Southern Africa Federation of Accountants (ECSAFA)

85. ECSAFA was created in September 1990 to coordinate the development of the accountancy profession and to promote internationally recognized standards of professional competence and conduct in the region. The Federation is responsible for:

(a) Providing encouragement for and assistance with the formation and development of national accountancy bodies;

(b) Exchanging information on technical and professional matters between member bodies;

(c) Holding of congresses, seminars and assemblies for the accountancy profession;

(d) Communicating with IFAC and other regional organizations.

This new regional body encompasses 18,000 accountants from Ethiopia, Kenya, Malawi, Mauritius, Namibia, South Africa, Swaziland, Uganda, the United Republic of Tanzania and Zimbabwe. IFAC has suggested that ECSAFA widen its membership to cover other countries. The President of ECSAFA recently discussed accountancy problems in the region. He said:

"The basic issue facing our profession in this region is one of numbers. There are simply not enough accountants in our region. This problem is not peculiar to Africa, but is perhaps as usual, more acute here. The numbers are obviously dependent on the trainees joining the profession and the training facilities available to them. We need to explore the training facilities we have in our region and how they could be harnessed and developed to meet our expectations. ... After training comes examination ... Some countries are totally self-sufficient and others use examination papers set elsewhere ... We need to examine ways and means of eliminating our dependency on foreign examinations. ... Do we know how many accountants are needed in each State to satisfy demand? Can we develop relevant training methods? What is the major cause of failure among our students and what should be done to improve the pass rate? Before we can expect help from others, we must demonstrate that we appreciate the important issues that confront us and are prepared to tackle them with whatever limited resources we may have." 19/

G. Fédération des experts comptables européens (FEE)

86. FEE's second conference took place in Venice from 10 to 12 October 1991. Its theme was "The process of liberalization in Europe: the role of the accountancy profession". Subjects dealt with included the harmonization of financial reporting practices, the mutual recognition of professional qualifications, privatization, concentration of enterprises and the transition

of the countries of Central and Eastern Europe from centrally planned to market economies.

FEE Survey

87. The 1992 Survey examines the accounting and reporting practices of 441 companies from 15 countries. It is not limited to large multinational corporations but also includes smaller, often family-owned, national enterprises that traditionally receive less publicity. The objectives of the survey are to highlight the problems connected with improving harmonization of accounting practices in Europe and to show how practices have developed.

88. The Survey covers a wide range of subjects, ranging from the more familiar areas, such as tangible fixed assets, financial fixed assets, inventories and government grants, to the more controversial ones, such as goodwill, brands, marketable securities, foreign currency translation and complex financial instruments. The Survey also examines other subjects such as pension provisions, deferred taxation, off-balance-sheet commitments and leasing.

89. The Survey presents a number of important conclusions. There are differences between the accounting policies and presentation of listed companies compared with those of unlisted companies. On an aggregate basis for all countries surveyed, listed companies disclose more detailed information than unlisted ones. Surprisingly, perhaps, the Survey shows that it cannot usually be said that listed companies tend to adopt accounting policies that have a favourable impact on reported profit, although in general those companies deduct goodwill from reserves, capitalize brands more often and display a greater use of revaluation.

90. Many will be interested to learn that according to the Survey, there is a growing tendency among companies in some countries (where the application of article 29 of the Seventh Directive makes possible the use of accounting policies in the consolidated accounts that are different from those used in the individual accounts) to use internationally harmonized accounting policies in consolidated accounts rather than in individual accounts. This tendency plays an important role in those countries such as Germany and France where individual accounts are used for tax purposes and the accounting and valuation methods are thus strongly influenced by legal and taxation requirements. Progress towards the improvement of the comparability of financial information may therefore lie with the consolidated accounts rather than with the individual accounts.

Central and Eastern Europe

91. Arrangements are being made for a FEE project to develop accounting and auditing practices in Bulgaria. The related contract has now been signed with the Poland and Hungary Assistance for Economic Restructuring (PHARE) operational service of the Commission of the European Communities, whereby EC funding of ECU 2.63 million (2.63 million European currency units) will be

/...

made available. The technical assistance contract will run for an initial period of 18 months, renewable. On 24 and 25 October, FEE organized, in conjunction with the Council of Europe, a conference in Budapest, on the role of the accountancy profession in a market economy that was attended by approximately 400 participants, including several senior officials from the Hungarian ministries of finance and justice. FEE also cooperated with the OECD in organizing a conference on the accounting aspects of privatization, held in Budapest from 13 to 15 November 1991.

92. The Federation is very conscious of its obligation to help, in whatever way possible, the emerging accountancy profession and professional bodies in Central and Eastern Europe, but also aware of the need to maintain very strict criteria for full membership of FEE. Accordingly, at its October meeting, the Council approved the creation of a task force to make recommendations, inter alia, on a possible intermediate category of membership suitable for organizations in Central and Eastern Europe, until such time as they reach the standards expected of FEE members in fully developed market economies.

Mutual recognition of professional qualifications

93. FEE continues to monitor the implementation of the EC Directive on the Mutual Recognition of Professional Qualifications, which will have considerably increased geographical coverage when the European Economic Area agreement enters into force on 1 January 1993. FEE also continues to press for additional legislation to extend the benefits of the Directive to firms and to the cross-border provision of services. The need for specific provisions in this regard has been highlighted by a case currently before the EC Court of Justice, in which the obligation to be established in a country in order to provide regulated accountancy services in that country is being challenged. Given that regulation of the profession is normally founded on establishment-based, host-country control, alternative arrangements need to be laid down to cope with cross-border provision of regulated services by professionals not resident in the country of their clients.

H. Fédération internationale des experts-comptables francophones (FIDEF)

94. During 1991, the members of FIDEF engaged in a number of accountancy development activities. Algeria passed Law No. 91-08 on 27 April 1991 creating the national Ordre des Experts-comptables. In Morocco the National Accounting Council replaced the National Commission on Accounting Standards, which had formulated the general code of accounting standards. The Government also adopted a decree authorizing the national commercial and business schools to grant a diploma of certified accountant (Decree No. 2.90.545, 18 January 1991).

95. FIDEF organized, together with the United Nations Centre on Transnational Corporations (UNCTC), the International Conference on Accountancy Development in Africa, held in Dakar from 14 to 17 October 1991. The Conference attracted

over 100 participants from 26 countries. For the first time many presidents and vice-presidents of national accounting councils, directors of accounting training and international aid representatives gathered in one place to discuss accounting development. During the course of the Conference a number of themes were discussed, including:

- (a) Significance of international accounting activities for developing countries;
- (b) Activities of international accounting bodies and organizations such as ISAR, IFAC, the World Bank and the International Labour Office;
- (c) Accounting needs in Africa: challenge of the 1990s.

96. Most important, 23 technical assistance projects in the areas of accountancy training, development of the profession and standard-setting were vetted. These projects will be revised and presented to potential donors by FIDEF and UNCTC during 1992.

I. Interamerican Accounting Association (IAA)

97. The XIX Interamerican Accounting Conference, which was held in Buenos Aires in October 1991, convened some 1,400 participants with about 300 companions, for a grand total of over 1,700 people. The assembly elected a new Executive Committee for the period 1992-1993. The countries on the new Executive Committee and their representatives are Canada (Robert Gowan), Puerto Rico (Jorge Aponte), Argentina (Hector Traballini), Brazil (José Ismar da Fonseca), El Salvador (René Fernandez), Peru (Víctor Vargas) and the Dominican Republic (Genaro Soriano). At its first meeting, the new Executive Committee ratified Mr. Robert Gowan as its President for 1992-1993 and elected Mr. Jorge Aponte as the new Deputy President.

98. Regional seminars were held in Paraguay (May), Peru (July), Chile (August), Haiti (September), and Nicaragua (October). Several IAA sponsored training sessions for executives were held. These dealt with accounting, computers, finance, inflation and teaching methods. IAA emphasis this year has been on the struggle against fraud and corruption. In Miami, Florida, on 2 and 3 December 1991, IAA hosted a tele-conference (RESPONACON) on corruption in government that was broadcast by satellite to all of Latin America on the morning of both days. After their presentations, participants-by-satellite in all countries were able to send in questions by telephone or fax. The afternoon sessions were used for local presentations in each country on corruption-related topics.

Notes

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7/ F. Choi, "Accounting and control for multinational activities: perspective on the 1990s", Management International Review, vol. 31 (special issue 1991).

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11/ P. J. Stilling, "The recognition and measurement of intangible assets", Round Table on Intangible Assets (Paris, OECD, May 1991).

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Experts on International Standards
of Accounting and Reporting
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Item 3 (a) of the provisional agenda*

PROGRAMME OF WORK OF THE INTERGOVERNMENTAL WORKING GROUP
OF EXPERTS ON INTERNATIONAL STANDARDS OF ACCOUNTING AND
REPORTING: REVIEW OF IMPORTANT CURRENT DEVELOPMENTS AT
THE GLOBAL AND NATIONAL LEVELS IN THE FIELD OF ACCOUNTING
AND REPORTING BY TRANSNATIONAL CORPORATIONS, ON THE BASIS
OF DOCUMENTATION RECEIVED BY THE UNITED NATIONS CENTRE ON
TRANSNATIONAL CORPORATIONS FROM (i) INDIVIDUAL MEMBER
STATES; (ii) INTERGOVERNMENTAL ORGANIZATIONS; AND
(iii) NON-GOVERNMENTAL ORGANIZATIONS

Environmental disclosures: international survey of
corporate reporting practices**

Report of the Secretary-General

SUMMARY

The present report contains the findings of a survey of 222 transnational corporations in the area of environmental information disclosure. The main purpose of the survey was to assess the extent to which enterprises in a number of major global industries were, or were not, disclosing information

* E/C.10/AC.3/1992/1.

** All quoted statements of corporations are derived from their 1989, 1990 or 1991 annual reports.

consistent with the recommendations circulated to Governments and interested parties by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting. The survey reconfirmed on a large scale that while transnational corporations are aware of environmental issues, their disclosures remain qualitative, descriptive, partial and difficult to compare. Not only was there little quantitative information but often no time period was attached to the qualitative information. Moreover, there was no relation drawn among amounts spent, results achieved and targets set. Therefore, it was not possible to gauge the environmental performance of the corporations, let alone the impact of their environmental activities on their financial results.

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INTRODUCTION

1. Green accounting, or accounting for the environment, is a major issue of public concern currently being addressed by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting (ISAR). The first report of the Secretary-General (E/C.10/AC.3/1990/5), on information disclosure relating to environmental measures, considered some preliminary research on the nature, benefits and costs of environmental disclosures, together with some tentative recommendations.

2. The second report of the Secretary-General (E/C.10/AC.3/1991/5), on accounting for environmental protection measures, reviewed the response from Governments, standard-setting agencies and industry to the Group's initiative in this area. According to the report, the Group had been encouraged to note that it had served as a catalyst for further developments and research among other groups. 1/ In addition, the results of a survey of industrial practices and attitudes on accounting for environmental measures were reviewed, with particular reference to the assessment of environmental expenditures and recognition of environmental liabilities.

3. The Group decided to make certain recommendations following from its deliberations on the second report concerning environmental disclosures for consideration by Governments and interested parties. These included a number of relevant items that could be considered for inclusion by the Board of Directors in its report/management discussion, in accounting policy notes and in the notes to financial statements. The intent of the recommendations was to provide minimum guidelines that, if followed, would produce consistent and comparable information over time and across corporations on environmental activities and their financial effects.

4. The Group also decided that it should continue to monitor information disclosure in this area and the evolution of accounting practices. The purpose of this report is to present the results of an international survey of corporate reporting practices with respect to environmental disclosures. The main purpose of the survey was to assess the extent to which enterprises in a number of major global industries were, or were not, disclosing information consistent with the Group's recommendations. The survey further aimed at identifying any additional items of information disclosure worthy of attention, as well as any outstanding or unusual examples of practice.

I. INTERNATIONAL SURVEY: SCOPE AND METHODOLOGY

A. Sample

5. Six major global industries - namely, chemicals; forestry and forestry products; metals; motors; petroleum and petrochemicals; and pharmaceuticals, soaps and cosmetics - had been chosen as the basis of the survey. The grounds for this selection had been the belief that such industries were particularly

likely to have environmental information to report, since they tended to have a significant impact upon the environment owing to the types of raw materials they consumed, the production processes they employed or the nature of their end product.

6. The initial sample comprised all corporations in those industries listed in either the Fortune Global 500 of July 1990 ^{2/} or the Billion Dollar Club, a United Nations Centre on Transnational Corporations database. The 315 corporations comprising the initial sample were requested to supply their 1990 annual reports and accounts. The result was a final sample of 222 corporations, as detailed in annex I, representing a response rate of 71 per cent. Of these corporations, 204 provided their 1990 report and accounts; 13, their 1989 report and accounts; and 5, their 1991 report and accounts. These corporations were distributed over a large number of countries, as shown in annex II, with the United States of America having been the most common country of domicile, followed by Japan and Germany.

B. Survey methodology

7. The survey was designed to capture the environmental information disclosures made available to ordinary shareholders in the normal course of operations. Accordingly, corporations were asked to provide the English-language version of their annual report and accounts, as normally provided to shareholders. A number of United States corporations also provided a copy of their annual 10K report required by the Securities and Exchange Commission. When these two documents were provided together as an integral package, both the annual report and accounts, and the 10K report, were considered. When, instead, the two documents were separate, only the annual report and accounts were considered. A total of nine corporations (4 per cent) stated in their report that a separate environmental statement was available upon request. As these statements were not sent to shareholders, except upon special request, they were not included in the survey that follows.

8. A survey instrument was designed to capture the type and extent of environmental disclosures, whether financial, quantitative or qualitative in nature, which were provided both in the annual accounts and notes and in the review of operations, report of the board of directors and management discussion of results. The survey instrument was very largely based upon the recommendations for environmental accounting and reporting contained in document E/C.10/AC.3/1991/5; as such, the survey included information disclosures relevant to the following major areas of concern:

- (a) Policies and programmes about the environment;
- (b) Major environmental improvements achieved;
- (c) Emission levels;

- (d) Impact of governmental legislation;
- (e) Legal proceedings;
- (f) Financial impacts, whether operating, capital, research and development or remedial;
- (g) Information in the notes to the accounts;
- (h) Other pertinent environmental information.

9. The results of the survey are presented as follows: first, an overview of the disclosure results is given and, subsequently, each area of interest is examined in some detail. An industry analysis, as well as a total sample analysis, is presented.

II. EXTENT OF ENVIRONMENTAL DISCLOSURES: OVERALL SURVEY RESULTS

10. From table 1, which shows the overall extent of disclosure in each of the areas of interest for each industry as well as for the entire sample, it can be seen that the vast majority of corporations appeared to be aware of the importance of the environment and their impact upon it. Indeed, it is encouraging to note that 191 corporations (86 per cent) reported at least some information regarding their environmental impacts. There do appear, however, to have been some differences in the levels of disclosure across the six industries considered. While 100 per cent of the forestry corporations reported at least some information and while the level of disclosure was also particularly high in petrochemicals (95 per cent), chemicals (90 per cent) and metals (87 per cent), disclosure levels were significantly lower in pharmaceuticals (79 per cent) and motors (76 per cent).

11. The environmental information disclosed tended to be descriptive or qualitative, especially in respect of environmental policies, programmes undertaken and major areas of concern. While information of this kind was provided by a total of 155 corporations (70 per cent), there were significant industry differences, ranging from a high of 94 per cent for the forestry industry to only 35 per cent for the motor industry - the only industry for which environmental policies and programmes were not the most commonly found item of information. For the motor industry, the most commonly found item of information was a description of key or major environmental improvements, although that item was provided by only around half of motor corporations (49 per cent). Again, the motor industry figure was lower than that found across all industries (62 per cent). The only other item disclosed in the majority of reports across all industries was information on the financial impacts of environmental measures undertaken, although more often than not (as will be shown below), this was qualitative rather than quantitative information. However, at least some information on the financial impacts of environmental actions was found in the reports of the majority of corporations

Table 1. Environmental disclosures by major corporations in key industries

Item disclosed	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age
Environmental policies and programmes	155	70	15	54	13	35	28	74	29	94	29	76	41	82
Key environmental improvements	138	62	13	46	18	49	21	55	24	77	25	66	37	74
Emission levels	41	19	2	7	5	14	3	8	8	26	2	5	21	42
Governmental legislation	74	33	3	11	9	24	9	24	19	61	21	55	13	26
Legal proceedings	51	23	6	22	5	14	2	5	8	26	16	42	14	28
Financial impacts	150	68	9	32	17	46	25	66	29	93	29	76	41	82
Capital expenditures	99	45	5	18	2	5	20	53	21	68	22	58	29	58
Operating costs	35	16	1	4	0	0	7	18	5	16	8	21	14	28
Research and development expenditures	86	39	3	11	16	43	18	47	11	36	19	50	19	38
Remedial expenditures	25	11	4	15	0	0	1	3	2	7	5	13	13	26
Information in notes to the accounts	32	14	3	11	3	8	3	8	4	13	9	24	10	20
Other information	29	13	4	14	1	3	2	5	5	16	8	21	9	18
Total of corporations disclosing information about the environment														
	191	86	22	79	28	76	33	87	31	100	36	95	45	90

Note: Figures in parentheses to the right of column headings indicate total number of corporations responding to survey.

(68 per cent), and especially those of petrochemicals corporations (76 per cent) and chemicals corporations (82 per cent). While many corporations did not break down financial impact into its constituent parts, a significant number provided information on capital expenditures (45 per cent) and research and development expenditures (39 per cent). Disclosures of operating expenditures and remedial expenditures were far less common, however (16 per cent and 11 per cent respectively). Other areas where a relatively low level of disclosure was evident were emission levels, governmental legislation, legal proceedings and information in notes to the accounts.

III. ENVIRONMENTAL POLICIES AND PROGRAMMES

12. The majority of the corporations surveyed disclosed at least some information on the major environmental issues facing them (see table 2). Thus a total of 155 corporations (70 per cent) disclosed some information on environmental policies and programmes with motors the only industry where disclosure was not the majority practice.

13. Discussions of environmental issues tend to take one or more of three possible forms. Firstly, corporations may simply describe the major environmental issues facing their industry. Such discussions are typically fairly brief, cover a limited range of issues and are found not in a clearly labelled environmental policy section of the report but, instead, constitute an integral part of the chairman's statement or the review of operations. The second type of disclosure, namely, descriptions of actions or programmes undertaken to mitigate certain of the environmental problems created by corporate activities, goes somewhat further. Again, these are qualitative statements and tend to concentrate upon a limited range and number of issues. While there were clear differences in the incidence of such disclosures across industries, as shown in table 2, what is probably even more noticeable were the differences between those industries in the issues covered. Thus the most common issue in the motor industry was emission levels followed by the use of chlorofluorocarbons (CFCs), as illustrated by the two-page environmental section of Nissan Diesel (Japan). In the chemical industry, especially in European corporations, emission levels received the most attention, as illustrated by the lengthy disclosures of such corporations as Bayer (Germany) and Roche (Switzerland). In contrast, the North American petrochemical industry appeared especially concerned with issues of safety and protection of the environment against accident, as exemplified by the two-page environmental protection statement of Amerada Hess (United States), which concentrated entirely upon those issues. The North American forestry industry appeared particularly concerned with issues of recycling as exemplified by the longest environmental issues report, that of Stone Container (United States), which spent nine pages mainly describing its recycling efforts. In Europe, on the other hand, the issue of greatest concern appeared to be the environmental impact of production processes, especially bleaching, as illustrated by Metsa Serla and Kymmene, both of Finland.

Table 2. Disclosure of environmental policies and programmes

Description of	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Pertinent issues	92	41	6	21	11	30	21	55	17	55	16	42	21	42
Policy adopted	87	39	11	39	8	22	10	26	17	55	20	53	24	48
Programmes undertaken	97	44	9	32	4	11	11	29	27	87	18	47	28	56
	155	70	15	54	13	35	28	74	29	94	29	76	41	82

Total of corporations disclosing information

Note: Figures in parentheses to the right of column headings represent total number of corporations responding to survey.

14. Policy statements were provided by slightly fewer corporations (39 per cent) than provided a description of pertinent issues (41 per cent). Again, the figures showed marked industry differences ranging from 22 per cent for motors to 55 per cent for forestry. Policy statements did not describe specific issues or actions undertaken but, instead, set forth corporate attitudes towards the environment. Those statements tended to reflect the way in which environmental concerns impacted upon corporate objectives and decision-taking, as illustrated by Hoechst (Germany), which began its environmental protection section by stating its "guiding principles" in the following terms:

"Hoechst believes in acting with farsightedness and responsibility in matters of safety and environmental protection. These considerations have equal standing with our objectives to perform efficiently among international competition."

15. Such statements generally constituted only a small part of the environmental disclosures made and, as given, were supported by some indication of activities undertaken or expenditures made. However, this was not always the case. Some corporations provided only a policy statement - albeit in the case of Upjohn (United States), a fairly detailed one - with little or no supporting evidence to allow for its verification.

IV. KEY ENVIRONMENTAL IMPROVEMENTS

16. In document E/C.10/AC.3/1991/5, the Secretary-General recommended disclosure of information concerning environmental improvements that had been made in key areas. It is encouraging, therefore, to find that 138 corporations (62 per cent) provided such information. As shown in table 3, the highest level of disclosure was found in the forestry industry (77 per cent) while the lowest level was found in the pharmaceutical industry (46 per cent). However, across all industries the majority of corporations provided qualitative rather than quantitative information. Indeed, only 21 per cent (46 corporations) disclosed quantitative details although the figure rose to a high of 38 per cent in the chemicals industry. Similarly, when the period covered is examined, it is apparent that most corporations failed to disclose the time period concerned, especially when only qualitative descriptions were given. Typical of those descriptions were statements to the effect that a considerable effort had gone into improving emission levels of engines (motors) or that capital expenditures had been made to improve emission levels (chemicals). When the period covered by such disclosures was explicitly stated, a clear majority described only those activities undertaken in the previous year, especially when those disclosures were part of the review of operations, rather than of a specific or separate environmental statement.

Table 3. Disclosure of key environmental improvements

Description	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Non-quantified	125	56	11	39	18	49	19	50	19	61	23	61	35	70
Quantified	46	21	3	11	2	5	6	16	8	26	10	26	19	38
Areas covered														
Product improvements	61	28	3	11	11	30	5	13	13	42	10	26	19	38
Liquid effluent	49	22	1	4	1	3	4	11	16	52	8	21	19	38
Waste gas/air	83	37	3	11	13	35	12	37	12	39	15	40	26	52
Solid waste	30	14	7	25	1	3	5	13	4	13	3	8	10	20
Remediation	15	7	1	4	1	3	2	5	4	13	5	13	2	4
Recycling	53	24	4	14	3	8	12	32	15	48	9	24	10	20
Power used	22	10	0	0	5	14	4	11	7	23	1	3	5	10
Water used	19	9	0	0	0	0	1	3	7	23	3	8	8	16
Accidents/safety	29	13	1	4	0	0	2	5	2	7	16	42	8	16
Working environment	5	2	0	0	0	0	1	3	1	3	2	5	1	2
Other	48	22	5	18	3	8	6	16	8	26	8	21	18	36
Period covered														
One year	45	20	6	21	6	16	5	13	7	23	16	42	5	10
Five years	5	2	0	0	1	3	0	0	0	0	3	8	1	2
Since policy introduced	8	4	0	0	0	0	1	3	4	13	0	0	3	6
Other period	5	2	1	4	0	0	0	0	1	3	1	3	2	4
Not stated	75	34	6	21	11	30	15	40	12	39	5	13	26	52
Total of corporations disclosing information	138	62	13	46	18	49	21	55	24	77	25	66	37	74

Note: Figures in parentheses to the right of column headings represent total number of corporations responding to survey.

17. Looking at the issues raised reveals that the most common concern was emissions into the air. This issue raised by over one third of corporations in all industries except pharmaceuticals, was followed (in descending order of prevalence) by product improvements (especially common in the motor, chemical and forestry industries), recycling (especially common in the metals and forestry industries) and liquid effluent (especially common in the chemicals and forestry industries). In contrast, less than 10 per cent of all corporations raised the issues of remediation, water usage and the working environment. Other issues raised included, for example, noise reduction and tree planting at industrial sites (Indian Oil Corporation, India), pesticide use (Montedison, Italy), transportation safety (Union Carbide, United States) and packaging (Pechiney, France). However, also common for this category of other issues were statements concerning such issues as hazardous waste and environmental pollution, which proved too general and vague to be placed in any specific category.

V. EMISSION LEVELS

18. The extent of disclosure of information relating to emission levels is reported on in table 4. The overall level of disclosure was rather low, with only 19 per cent of corporations disclosing any relevant information. However, the figure rose to 26 per cent in the forestry industry and to 42 per cent in the chemicals industry. While the most common type of disclosures were quantified disclosures, in particular of actual emission levels achieved, information on targets was considerably rarer. Furthermore, a comparison of actual emission levels with targets was quantified by only four corporations; unfortunately, this kind of information was more commonly disclosed in terms of a non-quantified description. The most common kind of emissions information related to emissions into the air, and disclosure of such information was especially common among chemical corporations (38 per cent). In contrast, information on solid waste was provided by only eight corporations and waste water information was found in only five cases.

19. In contrast to other areas of environmental information, one common approach towards emissions disclosures was the provision of graphical information. In many cases such information related to specific plants and pollutants and covered a long time period, as illustrated by Dofasco (Canada), which provided graphs of the previous 20 years of residual water particulate and particulate air emissions at its Hamilton steel operation. Another example was DSM (Netherlands), with a six-year graph of hydrocarbon emissions from its Limburg site. A further example was ICI (United Kingdom) which, instead of disclosing the level of emissions, provided a graph of the percentage reduction in yearly emissions from German resin manufacturing plants in the previous four years.

20. Rather less common were attempts to produce figures for the entire corporation or for a number of plants, although noticeable exceptions to this approach included MoDo (Sweden) and Hoechst (Germany), while Asahi Chemical (Japan), went even further by comparing emissions from its works with the Japanese industrial average.

Table 4. Disclosure of emission levels

Item disclosed	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Emission targets set														
Quantified	17	8	1	4	0	0	0	0	3	11	1	3	12	24
Non-quantified	4	2	0	0	0	0	1	3	2	7	0	0	1	2
Emission levels achieved														
Quantified	28	13	2	7	2	5	1	3	3	10	2	5	18	36
Non-quantified	7	3	0	0	1	3	1	3	2	7	0	0	3	5
Emission levels achieved relative to targets														
Quantified	4	2	0	0	0	0	0	0	3	10	0	0	1	2
Non-quantified	7	3	0	0	1	3	0	0	5	16	0	0	1	2
For														
Liquid effluent	14	6	1	4	2	5	1	3	5	16	0	0	5	10
Waste gas/air	33	15	2	7	2	5	3	8	5	16	2	5	19	38
Waste water	5	2	0	0	0	0	0	0	2	7	0	0	3	6
Solid waste	8	4	1	4	0	0	0	0	5	16	0	0	2	4
Other	3	1	0	0	2	5	0	0	0	0	0	0	1	2
Total of corporations disclosing information														
	41	19	2	7	5	14	3	8	8	26	2	5	21	42

Note: Figures in parentheses to the right of column headings represent total number of corporations responding to survey.

21. A small number of corporations concentrated upon disclosing information about planned and future targets rather than past achievements, as illustrated by Neste (Finland), which stated that:

"The new sulphur recovery unit at Porvoo will reduce sulphur dioxide emissions in 1992 to under 10,000 tonnes a year, less than 20 per cent of what they were in 1980. Planning is also under way on reducing sulphur emissions yet further, although the cost per each extra tonne of sulphur dioxide reduced will be many times higher than that for plants just starting to cut their sulphur emissions.

"In Ontario a decision was taken to reduce the sulphur content of diesel and light fuel oil to 0.05 per cent, a very low figure by European standards."

22. The diversity in practice can be seen further when disclosures comparing actual and target emissions are considered. For example, some disclosures were made purely for domestic plants, as was the case for Rohm & Haas (United States), which stated that:

"Air emissions in the United States are reported to the public and the government using data required under provisions of the Superfund Reauthorisation Act (SARA). In the most recent SARA report, air emissions were 25 per cent lower than the previous year. Rohm and Haas remains committed to its publicly stated goal of 75 per cent reduction in SARA air emissions."

23. However, other corporations appear to have provided similar information for the entire corporation, as illustrated by Monsanto (United States):

"In 1988, management committed to a 90 per cent reduction in toxic air emissions by the end of 1992, a goal that will require the development and installation of new technology and additional capital expenditure. Reduction of 39 per cent was accomplished through 1989. Compilation of data for 1990 is not complete; however, further reduction has been achieved."

VI. GOVERNMENT LEGISLATION

24. Taken overall, information on legislation was given in one form or another by 33 per cent of the sample (74 corporations). In a number of cases, this information was clearly linked to information on emissions levels. However, as can be seen from table 5, disclosures concerning legislation, unlike emissions information, were particularly common in the forestry (61 per cent) and petroleum (55 per cent) industries compared with the chemical industry (26 per cent), although such information was even less common in the pharmaceutical industry (11 per cent). As for information relating to emissions legislation, the most commonly mentioned types of issues were those concerned with emissions into the air (20 per cent), with every

Table 5. Disclosure of information relating to government legislation

Item disclosed	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Description of legislation	22	10	2	7	2	5	3	8	8	26	4	11	3	6
Impact on measures undertaken	53	24	0	0	5	14	6	16	13	42	19	50	10	20
Extent meeting legislation	33	15	2	7	4	11	4	11	13	42	5	13	5	10
For														
Liquid effluent	17	8	0	0	0	0	1	3	9	29	4	11	3	6
Waste gas/air	44	20	1	4	8	22	2	5	8	26	17	45	8	16
Waste water	10	5	0	0	1	3	2	5	4	13	1	3	2	4
Solid waste	11	5	1	4	0	0	1	3	7	23	2	5	0	0
Products	13	6	0	0	1	3	0	0	1	3	10	26	1	2
Other	19	9	1	4	0	0	4	11	6	19	4	11	4	8
Total of corporations disclosing information														
	74	33	3	11	9	24	9	24	19	61	21	55	13	26

Notes: Figures in parentheses to the right of column headings represent total number of corporations responding to survey.

other type of issue mentioned by less than 10 per cent of the sample. However, reference to legislation concerning liquid effluent was quite common among forestry corporations (29 per cent) as was reference to product-based legislation among petrochemical corporations (26 per cent).

25. While the issues covered varied considerably, reflecting both differences in the legislation in particular countries and the important concerns of the various industries, four types of disclosures were apparent. At the simplest level were statements that the corporation was aware of the existence of certain environment-related legislation; such statements were illustrated by that of Toray (Japan):

"As Toray's manufacturing activities progressed in the favourable economic climate of the 1960s, the Company recognised the importance of accident prevention and pollution control in advance of the passage of the 1967 Basic Law for Environmental Pollution Control."

26. Slightly more information was given by the 33 corporations (15 per cent) that described the extent to which they were meeting existing legislative requirements, as illustrated by the Indian Oil Corporation (India):

"Ambient air quality was monitored regularly by all the refineries and the concentration levels found to be well within stipulated national standards, throughout the year."

27. A third and more common approach entailed descriptions of new legislation coupled with an indication of its likely impact. Such impacts were discussed either in terms of the actions that had been taken by the corporation, as illustrated by Roche (Switzerland):

"In order to comply with the new, stricter nitrous oxide regulations in Switzerland, low NO_x burners and de-NO_x plants have been installed or are in the planning stage."

or in terms of the cost of meeting the legislation, as illustrated by MacMillan Bloedel (Canada):

"New provincial water quality regulations for BC [British Columbia] require improved standards of suspended solids, biochemical oxygen demand, acute fish toxicity and the amount of organically-based chlorine. The new provincial regulation for organically-based chlorine meets the established standards in the world today.

"The estimated cost to MB [MacMillan Bloedel] to meet all of these new standards is over \$300 million, to be spent over the next three to five years. The regulations place a heavy capital burden on the company without adding any productive capacity. They were imposed with a tight deadline and require considerable cashflow at a time when markets are poor."

28. The best level of disclosure was achieved by those corporations that clearly described the new legislation as well as the extent to which they were currently meeting it and the action that would be required for complete compliance, as illustrated by Norsk Hydro (Norway):

"In 1990 the Norwegian environmental authorities set new emission limits for the Ardal smelter. These stipulate that fluoride emissions shall be reduced to 16 kg per hour by 1 July 1993. At the end of 1990 emissions were about 18 kg per hour, after significant improvements had already been achieved. Ardal Verk has decided to build a new sulphur scrubbing unit which will lead to a substantial reduction in emissions of sulphur dioxide."

VII. LEGAL PROCEEDINGS AND NOTES TO THE ACCOUNTS

29. In document E/C.10/AC.3/1991/5, it was recommended that corporations should disclose, in the report of the board of directors, any material legal proceedings under environmental laws. In addition, corporations should disclose, in the notes to the accounts, the accounting policies with respect to recording liabilities, provisions, reserves and contingent liabilities, as well as the amounts of liabilities, provisions and reserves and information on contingent liabilities.

30. However, it appears that when any of this information was provided it was most often disclosed as a single item rather than disclosed separately as information on environmental proceedings, accounting policies, amounts charged to the accounts and contingent liabilities. Thus material environmental proceedings were most often disclosed as a part of contingent liabilities, and under this item a description of accounting policies for liabilities, provisions or reserves and the related amounts was also included. Environment-related expenditures incurred in the normal course of operations were almost always disclosed in the review of operations rather than in the notes to the accounts. The actual location of such information in the annual report and accounts may not at first sight be considered important. It may, however, affect the reliability or credibility of the information as perceived by the reader, since only the accounts and related notes are audited. The issue of the disclosure of expenditures related to normal operations is explored more fully in the subsequent discussion of financial effects.

31. This is an area where it is particularly difficult to draw conclusions regarding the level of disclosure or non-disclosure, as non-disclosure may occur either because the corporation has no material legal proceedings or because it has decided, for a variety of possible reasons, not to disclose information on legal proceedings. However, as shown in table 6, a total of 51 corporations (23 per cent) provided some information in this area. It is noteworthy that the level of disclosure also varied considerably across the six industries from a low of only 5 per cent for the metals corporations to a high of 42 per cent for the petrochemicals corporations. Legal proceedings were described by a total of 28 corporations (13 per cent), while a somewhat

Table 6. Disclosure of legal proceedings under environmental laws and notes to the accounts

Description of Item disclosed	All Corporations (222)		Pharmaceu- ticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petroche- micals (39)		Chemicals (50)	
	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age
Legal proceedings	28	13	3	11	2	5	1	3	4	13	11	29	7	14
Likely outcome	40	18	6	21	4	11	1	3	6	19	13	34	10	20
Actual costs incurred	9	4	0	0	1	3	0	0	1	3	4	11	3	6
Actions undertaken	14	6	0	0	1	3	0	0	4	13	3	8	6	12
Referral to Superfund sites	19	9	5	18	1	3	0	0	1	3	6	16	5	12
Accounting policy adopted	9	4	1	4	0	0	1	3	0	0	3	8	4	8
Amounts in notes with respect to														
Costs	3	1	0	0	1	3	0	0	0	0	1	3	1	2
Liabilities	7	3	0	0	2	5	1	3	0	0	1	3	3	6
Provisions	6	3	1	4	0	0	0	0	2	6	1	3	2	4
Reserves	4	2	0	0	0	0	0	0	0	0	2	5	2	4
Total of corporations disclosing information														
	51	23	6	21	5	14	2	5	8	26	16	42	14	28

Notes: Figures in parentheses to the right of column headings represent total number of corporations responding to survey.

greater number described the likely outcome (18 per cent). However, the actual costs incurred and actions undertaken because of such legal proceedings were each disclosed by less than 10 per cent of the sample corporations. Accounting policy statements, whether for costs, liabilities, provisions or reserves, were disclosed by only nine corporations (4 per cent). Quantification of any of these items was even less common: the highest number of disclosures (by seven corporations, or 3 per cent) occurred for liabilities.

32. While some European corporations such as Norsk Hydro (Norway), disclosed environmental contingent liabilities, disclosures in this area were almost entirely a North American - and more particularly a United States - phenomenon. What is perhaps most noteworthy about the disclosures of United States corporations regarding their contingent liabilities was the lack of detail for the disclosures provided - which, typically, simply stated that legal proceedings either currently existed or were likely to exist in the future; that the outcome could not be ascertained; and that, in any case, that outcome was unlikely to have a materially adverse impact upon the corporation - as illustrated by the disclosures contained in the financial review or management discussion of Amerada Hess (United States):

"The Corporation anticipated that there will be substantial future costs of assessing and remediating environmental sites, including sites where the Corporation had been named a potentially responsible party under the Superfund Legislation or where corrective action may be necessary at solid waste management units under permits issued pursuant to the Resource Conservation and Recovery Act. However, the timing, extent and cost of many such projects are currently not determinable. Where the costs of assessing and remediating known environmental sites can be reasonably estimated, such costs are expected to be adequately covered by existing reserves."

33. Rather than argue that any costs were likely to be covered by existing reserves, other corporations argued instead that such costs were not likely to have a material impact. For example, Upjohn (United States) stated, in the notes to the accounts, that:

"The company is of the opinion that although the outcome of the litigation and proceedings referred to above cannot be predicted with any certainty, the ultimate liability should not have a material adverse effect on the company's consolidated financial position."

34. While such predicted outcomes were the most common, a few corporations did admit that, however unlikely, the outcome could be material. For example, Unocal (United States) stated that:

"Even though unlikely, an adverse decision awarding punitive damage to several plaintiffs or imposing several liability for clean-up obligations of other equally responsible parties, however, could have a substantial effect on the company's financial position."

35. This corporation's disclosure is especially interesting as it also explained in considerable detail why corporations apparently had so much difficulty in quantifying the size of their contingent liabilities:

"The present state of the law, which imposes joint and several liability on defendants, the potentially large number of claimants for any given site or exposure, the uncertainty attendant to the possible award of punitive damages, the imprecise and conflicting engineering evaluation and estimates of proper clean-up methods and costs, and the recent judicial recognition of new causes of action, all contribute to the practical impossibility of making any reasonable estimate of the company's potential liability for any one or all of these environmental matters."

36. As mentioned above, disclosure of actual costs incurred or quantification of expected outcomes was far less common, although such disclosures were sometimes found.

VIII. FINANCIAL EFFECTS OF ENVIRONMENTAL PROTECTION MEASURES

37. A majority of the sample corporations disclosed information on the financial effects of environmental protection measures. As discussed above, in nearly all cases this information was provided in either the general review of operations or a special environmental protection statement. Thus, while 150 corporations (68 per cent) provided some information on the financial effects of the environmental protection measures undertaken, as shown in table 7, only 3 corporations (1 per cent) disclosed the costs incurred in the notes to the accounts. As for most types of information disclosures, clear industry differences emerged. The highest disclosure level was found in the forestry industry (93 per cent) while the majority of the chemical, petrochemical and metals industries also provided information (82 per cent, 76 per cent and 66 per cent respectively). In contrast, only 46 per cent of the motor corporations and 32 per cent of the pharmaceuticals corporations provided any information.

38. Looking at the types of information disclosed reveals that quantified information, namely, disclosures of the actual amount of expenditure incurred, was more common than purely qualitative or descriptive comments regarding the levels of expenditure (40 per cent versus 28 per cent). This relationship held for all industries with the exception of the motor industry where, in contrast, only 8 per cent of the corporations quantified any of the relevant expenditures, while, instead, 38 per cent provided qualitative descriptions.

39. With respect to the period covered, the most commonly disclosed item was information regarding expenditures for the current year. Such information was provided by 28 per cent of the sample. The next most common item was forecast information, disclosed by only 12 per cent. However, the forestry industry was an exception to this, with 42 per cent of corporations providing forecast information and only 36 per cent providing details of expenditures made in the

Table 7. Disclosure of information on financial effects of environmental protection measures

Item disclosed	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (18)		Forestry (31)		Petrochemicals (18)		Chemicals (50)	
	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age	Number	Percent-age
Quantified information	87	40	7	25	3	8	20	53	17	55	16	42	24	48
Unquantified information	63	28	2	7	14	38	5	13	12	39	13	34	17	34
Information relating to														
Operating costs	15	16	1	4	0	0	7	18	5	16	8	21	14	28
Capital expenditures	99	45	5	18	2	5	20	53	21	68	22	58	29	58
Research and development expenditures	86	39	3	11	16	43	18	47	11	36	19	50	19	38
Remedial expenditures	25	11	4	15	0	0	1	3	2	7	5	13	13	26
Total expenditures only	33	15	2	7	1	3	3	8	8	26	7	18	12	24
Period covered														
Current year	63	28	3	11	5	14	6	16	11	36	20	52	18	36
Future periods	26	12	1	4	2	5	3	9	13	42	3	8	4	8
Past periods	25	11	3	11	2	5	6	16	6	19	2	5	6	12
Not specified	51	23	2	7	9	24	13	34	4	13	8	21	15	30
Total of corporations disclosing information														
	150	68	9	32	17	46	25	66	29	93	29	76	41	82

Note: Figures in parentheses to the right of column headings represent total number of corporations responding to survey.

current period. Fully 23 per cent provided information while not specifying the time period that information related to. This practice occurred when the disclosures made were qualitative only.

40. The most common type of information found was that relating to capital expenditures, provided by 99 corporations (45 per cent), as shown in table 8. The clear majority of corporations disclosed the actual amount spent, and only 17 per cent did not provide details of either past, current or forecast expenditures. These incidences were in clear contrast to those for information on research and development expenditures. While this was the second most common type of information, provided by 86 corporations (39 per cent), only 5 corporations (2 per cent) provided quantified details of the amount spent; and 81 corporations (36 per cent) provided only qualitative details (see table 9). There were other differences in incidences of disclosure between the two types of information. In particular, differences in the incidence of disclosure across the six industries were greater for capital expenditure information than for research and development information. For capital expenditures disclosure of information varied from a high of 68 per cent for the forestry industry to only 5 per cent for motors. In contrast, for research and development expenditures, the highest incidence was found in the petrochemicals industry (50 per cent) and the lowest in pharmaceuticals (11 per cent).

41. Looking in more detail at the disclosure of actual amounts spent makes it apparent that in virtually all cases this information was provided for the entire corporation with no geographical or industrial breakdown given. In the few cases where any breakdown was provided it was related to domestic and overseas operations, as in the case of Degussa (Germany):

"The running costs of our environmental protection installations amounted to DM 172 million for the group as a whole (1988/89: DM 165 million), including DM 149 million (1988/89: DM 142 million) in Germany.

"Investment in environmental protection plant and equipment by the Group amounted to DM 32 million (1988/89: DM 16 million), including DM 23 million (1988/89: DM 13 million) in Germany."

42. As previously mentioned, the most common quantitative information was on the amount of capital expenditures. That was often the only quantitative information provided, as illustrated by Georgia-Pacific (United States):

"Georgia-Pacific's capital expenditures for pollution control facilities and equipment were \$164 million during the past five years, with additional ongoing expenses incurred to maintain environmental regulatory compliance."

Table 9. Disclosure of information on amount of capital expenditures

Item disclosed	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Amount spent in														
Current period	53	24	3	11	1	3	8	21	9	29	11	29	21	42
Past periods	23	10	2	7	0	0	5	13	6	19	3	8	7	14
Future periods	27	12	2	7	0	0	4	11	7	23	7	18	7	14
Amount spent not stated	38	17	1	4	1	3	10	26	9	29	10	26	7	14
General statement only	40	18	2	7	1	3	7	19	8	26	7	18	15	30
Description of measures related to expenditure	59	27	3	11	1	3	13	34	13	42	15	40	14	28
Measures described														
Liquid effluent treatment	27	12	1	4	1	3	5	13	9	29	5	13	6	12
Waste gas and air treatment	38	17	2	7	1	3	10	26	6	19	10	26	9	18
Solid waste treatment	14	6	0	0	0	0	4	11	6	19	1	3	3	6
Remediation	4	2	0	0	0	0	2	5	1	3	1	3	0	0
Recycling	16	7	1	4	1	3	5	13	5	16	3	8	1	2
Products	6	3	0	0	0	0	0	0	3	10	3	8	0	0
Power usage	5	2	0	0	1	3	2	5	0	0	1	3	1	2
Other	20	9	1	4	0	0	8	21	2	7	4	11	5	10
Total of corporations disclosing information	99	45	5	18	2	5	20	53	21	68	22	58	29	58

Note: Figures in parentheses to the right of the column headings represent total number of corporations responding to survey.

Table 9. Disclosure of information on amount of research and development expenditures

Item disclosed	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Amount spent														
Quantified	5	2	0	0	1	3	2	5	0	0	2	5	0	0
Unquantified	81	36	3	11	15	40	16	42	11	36	17	45	19	38
General statement only	6	3	0	0	0	0	2	5	3	10	0	0	1	2
Description of measures														
Costs related to	80	36	3	11	16	43	16	42	8	26	19	50	18	36
Measures described														
Liquid effluent treatment	16	7	0	0	0	0	2	5	4	13	4	11	6	12
Waste gas and air treatment	43	19	1	4	12	32	8	21	1	3	14	37	4	14
Solid waste treatment	7	3	0	0	0	0	1	3	2	7	2	5	2	4
Remediation	3	1	0	0	1	4	0	0	0	0	2	5	0	0
Recycling	21	9	1	4	4	11	6	16	2	7	4	11	4	8
Products	41	19	1	4	11	30	6	16	2	7	12	32	9	18
Power usage	12	5	0	0	8	22	0	0	0	0	2	5	2	4
Other	34	15	2	7	7	19	7	18	3	10	7	18	8	16
	86	39	3	11	16	43	18	47	11	36	19	50	19	38
Total of corporations disclosing information														

Note: Figures in parentheses to the right of the column headings represent total number of corporations responding to survey.

43. When more than one type of expenditure was given, in most cases all types were related to capital expenditures and operating expenditures. In most cases where operating expenditures were provided they were disclosed alongside capital expenditures, as illustrated by Degussa (Germany) above. However, there were a few cases where only operating expenditures were provided, as illustrated by Wacker-Chemie (Germany):

"At Wacker-Chemie we regard environmental safety as a vital investment for the future and, in consequence, our investments in environmental protection have climbed rapidly over the past years. The total operating costs for environmental protection have risen to just under DM 90 million per year. This is an increase of over 700 per cent since 1975. By comparison, production increased by just 200 per cent in the same period."

44. While a breakdown of expenditures into capital expenditures and operating expenditures was the most common one, a handful of corporations disclosed various other breakdowns. One of the most interesting was that of Ciba-Geigy (Switzerland) which, instead, separated expenditures into those related to product safety, those related to process safety and those related to production. Other interesting examples include Schering (Germany), which disclosed the costs of environmental protection facilities, operating costs for waste recovery and disposal facilities, environmental protection department costs and the costs of preventive and clean-up operations, and Olin (United States), which split costs into normal plant operations and investigatory and remedial efforts.

IX. OTHER ENVIRONMENTAL INFORMATION: SPECIAL REPORTS AND ENVIRONMENTAL AUDITS

45. In addition to the information recommended by the Intergovernmental Working Group of Experts on International Standards of Accounting and Reporting, two areas of disclosure that were considered to be of special interest were also considered, namely, (a) availability of additional environmental information contained in special reports and (b) information on environmental audits.

46. Noranda (Canada) perhaps best summed up the type of information available in special environmental reports when it described the two types it produced in the following terms:

"The reports will be a straightforward accounting of compliance records, emission levels, discharges and capital expenditures devoted to the environment. They will not be entirely good news stories but ones we believe our shareholders have a right to know."

47. As shown in table 10, special environmental reports were provided by only nine corporations (4 per cent). In addition, they appeared to be, in particular, a North American/United Kingdom of Great Britain and Northern

Table 10. Other environmental information disclosures

Disclosure	All corporations (222)		Pharmaceuticals (28)		Motors (37)		Metals (38)		Forestry (31)		Petrochemicals (38)		Chemicals (50)	
	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage	Number	Percentage
Separate environmental statement available	9	4	2	7	0	0	1	3	3	10	1	3	2	4
Reference to environmental audits	23	10	2	7	1	3	1	3	3	10	8	21	8	16
	29	13	4	14	1	3	2	5	5	16	8	21	9	18
Total of corporations disclosing information														

Note: Figures in parentheses to the right of the column headings represent total number of corporations responding to survey.

Ireland phenomenon. This low level of disclosure was somewhat disappointing, as such reports appear to offer many advantages. They allow the annual report and accounts to clearly retain their traditional role of providing an essentially financial view of the corporation while enabling the interested reader to obtain a very much fuller picture of the environmental activities and impacts of the corporation than is normally available inside the somewhat constrained limits of the annual report.

48. One indication of the seriousness with which corporations view their commitment to the environment may perhaps be gauged by whether or not they conduct an environmental audit of their operations and activities. A total of 23 corporations (10 per cent) indicated that such environmental audits were undertaken (see table 10). That they appear to have been particularly common in the petrochemical and chemical industries (undertaken by 21 per cent and 16 per cent of corporations respectively) probably reflects the fact that such audits had grown out of pre-existing safety audits that were likely to be of especial importance in those industries. Again, the amount of information provided varied considerably - from simple statements that regular audits existed to very detailed information, as in the case of Stora (Sweden), which described the genesis, geographical scope, specific items checked and coverage of the audits, as well as gave an indication of the outcome of prior audits.

X. CONCLUSIONS

49. What was most apparent from this survey of environmental disclosures was the high level of interest or awareness in environmental matters, with 86 per cent of the sample having provided at least some information. It would appear that the level of disclosure had increased greatly in comparison with the much lower levels of disclosure found in surveys of a somewhat earlier date. 3/ However, while this high level of disclosure may be taken as an encouraging sign it is also apparent that most corporations complied with only a very small number of the Group's recommendations.

50. As had been found in earlier surveys, the most common disclosures continued to be qualitative or descriptive in nature, covering in particular environmental policies, attitudes and descriptions of improvements achieved in key areas. As such, those disclosures tended to be partial and difficult to compare either across corporations or over time. This in turn means that it became very difficult, if not impossible, to gain an objective view of a corporation's performance in the area of environmental disclosures. Indeed, there is evidence to suggest that there is little connection between the amount of information now being disclosed in that area and a corporation's actual environmental performance. 4/ However, despite this, such disclosures are not necessarily without value. The disclosure of environmental policies or descriptions of actions undertaken may not only impact upon the behaviour of readers of the accounts, but, perhaps more important, the mere act of reporting may encourage emphasis by the corporation itself on the importance of environmental awareness and thus provide an impetus towards further action. 5/

51. Far less common than such qualitative descriptions were quantitative data of any kind. When these appeared they most often dealt with one of three subjects: emission levels achieved and emission levels achieved relative to targets; financial effects of environmental protection measures; and contingent liabilities. A significant minority of corporations (19 per cent) disclosed information upon the actual emission levels achieved. While this was objective information that could be readily assessed by the interested reader, its usefulness was all too often minimized in so far as such information most often covered a small number of plants and a limited number of types of emissions. Also, it was often reported in terms of the percentage reduction achieved rather than of the actual emission levels achieved. Furthermore, only four corporations quantitatively compared actual emissions with targets.

52. The disclosure of financial information was relatively common. While increasing numbers of North American corporations were providing such information it would appear to have been especially prevalent in reports from continental European corporations. Forty per cent of those surveyed quantified such information. The final type of information found was information about contingent liabilities. Despite the fact that all those surveyed were in sectors having significant environmental impacts, only seven (3 per cent) reported on environmental liabilities. Such disclosures appear to have been almost entirely a United States phenomenon and were in direct response to the Securities and Exchange Commission requirements in this area. Again, while such information was doubtless not without value, as discussed above, most disclosures in this area were fairly vague and tended to provide little in the way of detail despite increased guidance by the Securities and Exchange Commission.

53. One major problem concerning environmental actions that few corporations appeared to have yet tackled was the question of how to report the output achieved relative to the input expended. Thus, for example, while the initiation of major environmental programmes, large percentage reductions in emissions and large financial expenditures may have indicated that a corporation was improving its performance, it may have also indicated that the corporation had major environmental problems. In contrast, the existence of no new programmes, stable emission levels and little financial expenditure may have indicated either that a corporation was ignoring such problems or that there was little room for further improvement, in so far as the corporation had done extremely well in the past. However, there were a few instances of corporations attempting to provide a more comprehensive report which included a comparison of programmes, improvements related to targets and the financial effects. It was particularly heartening to see a small number of corporations providing fairly detailed objective information, not just on the level of expenditures but, perhaps more important, on the extent to which they were meeting or exceeding governmental requirements or industry norms.

54. Given the high awareness of environmental issues but the rather low level of quantitative and consistent disclosure, the Group may wish to return to the recommendations in document E/C.10/AC.3/1991/5. It might be time to release

minimum guidelines that would improve reporting on environmental improvements, environmental emissions, compliance with existing legislation and the financial effects of such action on expenditures and liabilities.

Notes

1/ For a review of recent developments, see Green Accounting, R. Gray and R. Laughlin, eds., a special issue of Accounting, Auditing and Accountability Journal, vol. 4, No. 3 (1991); and Green Reporting: Accountancy and the Challenge of the Nineties, D. Owen, ed. (New York, Routledge, Chapman and Hall, 1991).

2/ Fortune (30 July 1990).

3/ C. B. Roberts, "International trends in social and employee reporting", ACCA occasional research paper No. 6 (London, Chartered Association of Certified Accountants, 1990).

4/ See A. Belkaoui and P. G. Karpik, "Determinants of the corporate decision to disclose social information", Accounting, Auditing and Accountability Journal, vol. 2, No. 1 (1989), pp. 36-51; J. W. Rockness, "An assessment of the relationship between US corporate environmental performance and disclosure", Journal of Business Finance and Accounting (autumn 1985), pp. 339-345; and J. Wiseman, "An evaluation of environmental disclosures made in corporate annual reports", Accounting, Organisation and Society, vol. 7, No. 1 (1982), pp. 53-63.

5/ R. Gray, "The greening of accountancy: the profession after Pearce", ACCA research report No. 17 (London, Chartered Association of Certified Accountants, 1990).

Annex I

SAMPLE CORPORATIONS

Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
Chemicals industry				
L'Air Liquide	France	12/89	FF	28 251
Air Products	United States	9/90	US\$	2 913
AKZO	Netherlands	12/90	f.	17 246
American Cyanamid	United States	12/90	US\$	4 570
Asahi Chemical	Japan	3/90	¥	1 176 640
BASF	Germany	12/90	DM	46 623
Bayer	Germany	12/90	DM	41 643
BOC	United Kingdom	9/90	£ stg.	2 644
Ciba-Geigy	Switzerland	12/90	SF	20 126
Courtaulds	United Kingdom	3/91	£ stg.	1 912
Dai Nippon	Japan	3/90	¥	1 074 515
Dow	United States	12/90	US\$	19 773
DSM	Netherlands	12/90	f.	10 164
Du Pont	United States	12/90	US\$	40 047
Ethyl	United States	12/90	US\$	2 514
FMC	United States	12/90	US\$	3 722
Freudenberg	Germany	12/90	DM	4 273
Gechem	Belgium	12/90	BF	54 340
B F Goodrich	United States	12/90	US\$	2 433
W R Grace	United States	12/90	US\$	6 754
Groupe EMC	France	12/89	FF	16 620
Henkel	Germany	12/90	DM	12 017
Hercules	United States	12/90	US\$	3 200
Hoechst	Germany	12/90	DM	44 862
Hüls	Germany	12/89	DM	8 934
ICI	United Kingdom	12/90	£ stg.	12 906
Kemira	Finland	12/90	Fmk	11 382

* Abbreviations denote the following currencies: \$A, Australian dollar; BF, Belgian franc; \$Can, Canadian dollar; \$Ch, Chilean peso; DKr, Danish Krone; DM, Deutsche mark; f., Netherlands guilder; FF, French franc; Fmk, markka; KD, Kuwaiti dinar; Lit, lira; LuxF, Luxembourg franc; NKr, Norwegian krone; \$NZ, New Zealand dollar; Ptas, peseta; Rs, Indian rupee; SKr, Swedish krona; SwF, Swiss franc; US\$, United States dollar; W, won; ¥, yen; and £ stg., pound sterling.

Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
Chemicals industry (continued)				
Mitsubishi Gas	Japan	3/90	¥	285 866
Mitsubishi Kasei	Japan	3/90	¥	1 154 409
Mitsui Petrochemical	Japan	3/90	¥	328 518
Mitsui Taotsu	Japan	3/90	¥	449 778
Monsanto	United States	12/90	US\$	8 995
Montedison	Italy	12/90	Lit	14 739 000
Nobel Industries	Sweden	12/90	SKr	26 399
Norddeutsche Affinerie	Germany	9/90	DM	2 184
Norsk Hydro	Norway	12/90	NKr	60 972
Olin	United States	12/90	US\$	2 592
PPG	United States	12/90	US\$	6 021
Quantum	United States	12/90	US\$	2 656
Rhone-Poulenc	France	12/90	FF	78 810
Roche	Switzerland	12/90	SwF	9 670
Rohm & Haas	United States	12/90	US\$	2 824
Sandoz	Switzerland	12/90	SwF	12 367
Sekisui	Japan	3/90	¥	710 970
Showa Denko	Japan	12/90	¥	569 651
Solvay	Belgium	12/90	BF	255 241
Sumitomo	Japan	12/90	¥	1 068 463
Toray	Japan	3/91	¥	917 144
Union Carbide	United States	12/90	US\$	7 621
Wacker-Chemie	Germany	12/90	DM	3 241

Forestry and forestry products

Abitibi-Price	Canada	12/90	\$Can	3 088
ASSI	Sweden	12/90	SKr	7 660
Boise Cascade	United States	12/90	US\$	4 186
Buhrmann-Tetterode	Netherlands	12/90	f.	5 561
Canadian Pacific	Canada	12/90	\$Can	10 500
Champion International	United States	12/90	US\$	5 090
Enso-Gutzeit	Finland	12/90	Fmk	10 287
Fletcher Challenge	New Zealand	6/90	\$NZ	13 324
Georgia-Pacific	United States	12/90	US\$	12 665
Great Northern Nekoosa	United States	12/89	US\$	3 588
International Paper	United States	12/90	US\$	12 960
James River	United States	4/90	US\$	5 950
Joju Paper	Japan	3/91	¥	402 909
Kimberly-Clark	United States	12/90	US\$	6 407
KNP (Royal Dutch Papermills)	Netherlands	12/90	f.	2 236

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Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
Forestry and forestry products (continued)				
Kymmene	Finland	12/90	Fmk	13 556
MacMillan Bloedel	Canada	12/90	\$Can	3 003
Mead	United States	12/90	US\$	4 772
Metsä Serla	Finland	12/90	Fmk	8 735
MoDo	Sweden	12/90	SKr	18 435
Noranda	Canada	12/90	\$Can	9 434
Oji Paper	Japan	3/90	¥	468 945
Repap	Canada	12/90	\$Can	1 102
Sanyo Kokusaku	Japan	3/90	¥	441 479
SCA	Sweden	12/90	SKr	31 122
Scott Paper	United States	12/90	US\$	5 356
Stone Container	United States	12/90	US\$	5 756
Stora	Sweden	12/90	SKr	62 369
Sumitomo Forestry	Japan	3/90	¥	334 351
Union Camp	United States	12/90	US\$	2 890
Weyerhaeuser	United States	12/90	US\$	9 024

Metals

Alcan	Canada	12/90	US\$	8 757
Alusuisse	Switzerland	12/90	SwF	6 334
Arbed	Luxembourg	12/90	LuxF	208 764
Babcock	Germany	9/90	DM	5 802
BHP	Australia	5/90	\$A	14 045
British Steel	United Kingdom	8/90	£ stg.	5 113
CMB Packaging	France	12/90	FF	24 415
Cockerill Sambre	Belgium	12/90	BF	203 110
Cookson	United Kingdom	12/90	£ stg.	1 468
Degussa	Germany	9/90	DM	13 925
Dofasco	Canada	12/90	\$Can	3 250
Furukawa Electric	Japan	3/90	¥	765 830
Hoogovens	Netherlands	12/90	f.	8 174
Imetal	France	12/90	FF	19 909
Inland Steel	United States	12/89	US\$	4 147
IRI	Italy	12/89	Lit	56 647 000
Johnson Matthey	United Kingdom	3/90	£ stg.	1 514
Kawasaki Steel	Japan	3/90	¥	1 112 300
Klöckner-Werke	Germany	9/90	DM	5 847
Kobe Steel	Japan	3/90	¥	1 221 800
LTV	United States	12/89	US\$	6 362
Mannesmann	Germany	12/90	DM	23 943

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Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
Metals (continued)				
Metallgesellschaft	Germany	9/90	DM	19 828
Mitsubishi Metal	Japan	3/90	¥	789 182
Nippon Light Metal	Japan	3/90	¥	575 945
Nippon Steel	Japan	3/90	¥	2 972 800
Nisshin Steel	Japan	3/90	¥	459 346
Outokumpu	Finland	12/90	Fmk	11 982
Pechiney	France	12/90	FF	76 869
Preussag	Germany	9/90	DM	19 046
Rauma Repola	Finland	12/90	Fmk	13 139
Stelco	Canada	12/90	\$Can	2 101
Sumitomo Electric Industries	Japan	3/90	¥	1 001 037
Sumitomo Metal	Japan	3/90	¥	1 119 600
Svenskt Stal	Sweden	12/90	SKr	15 619
Thyssen	Germany	9/90	DM	36 185
Toyo Sash	Japan	3/90	¥	412 034
VIAG	Germany	12/90	DM	19 423

Motors

Aisin Industry	Japan	3/90	¥	485 500
Robert Bosch	Germany	12/90	DM	31 823
BMW	Germany	12/90	DM	27 178
Chrysler	United States	12/90	US\$	30 620
Cummins	United States	12/90	US\$	3 462
Daihatsu	Japan	3/90	¥	766 070
Daimler-Benz	Germany	12/90	DM	85 500
Dana	United States	12/90	US\$	5 185
Eaton	United States	12/90	US\$	3 639
Fiat	Italy	12/89	Lit	52 019 000
Ford	United States	12/90	US\$	97 650
Fuji Heavy Industries	Japan	3/89	¥	633 442
General Motors	United States	12/90	US\$	124 705
GKN	United Kingdom	12/90	£ stg.	2 596
Hino Motors	Japan	3/90	¥	599 933
Honda	Japan	3/91	¥	4 301 518
Lucas	United Kingdom	7/90	£ stg.	2 229
Mazda	Japan	3/90	¥	2 402 276
Mitsubishi	Japan	3/90	¥	2 360 702
Navistar	United States	10/90	US\$	3 854
Nippon Seiko	Japan	3/90	¥	334 219

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Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
Motors (continued)				
Nissan Diesel	Japan	3/90	¥	350 659
Nissan Motor	Japan	3/90	¥	5 645 169
Paccar	United States	12/90	US\$	2 587
Pacific Dunlop	Australia	6/90	\$A	5 048
PSA	France	12/90	FF	152 955
Renault	France	12/89	FF	174 477
Saab-Scania	Sweden	12/90	SKr	29 035
SEAT	Spain	12/90	Ptas	503 297
Suzuki	Japan	3/90	¥	982 573
Toyoda Automatic Loom Works	Japan	3/90	¥	491 514
Toyota	Japan	6/90	¥	9 192 838
TRW	United States	12/90	US\$	8 169
Valeo	France	12/90	FF	20 186
Volkswagen	Germany	12/90	DM	68 061
Volvo	Sweden	12/90	SKr	83 185
Yamaha Motor	Japan	3/90	¥	592 559
Petroleum and petrochemicals				
Amerada Hess	United States	12/90	US\$	6 948
Ashland	United States	9/90	US\$	9 048
BP	United Kingdom	12/90	£ stg.	33 039
Burmah Castrol	United Kingdom	12/90	£ stg.	1 723
Chevron	United States	12/90	US\$	42 566
Coastal	United States	12/90	US\$	9 381
Elf Aquitaine	France	12/90	FF	175 479
ENAP	Chile	12/90	\$Ch	520 952
Exxon	United States	12/90	US\$	116 940
Idemitsu Kosan	Japan	3/90	¥	1 710 581
Indian Oil	India	3/90	Rs	98 553 466
Kerr-McGee	United States	12/90	US\$	3 683
FK Industri	Sweden	12/90	SKr	22 809
Kuwait Petroleum	Kuwait	6/89	KD	3 741
Lyondell Petrochemical	United States	12/90	US\$	6 495
Mapco	United States	12/89	US\$	2 113
Mitsubishi Oil	Japan	3/90	¥	788 505
Mobil	United States	12/90	US\$	54 361
Neste	Finland	12/90	Fmk	46 626
Nippon Mining	Japan	3/90	¥	1 015 878
Nippon Oil	Japan	3/90	¥	2 515 000
Nova	Canada	12/90	\$Can	4 736

Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
Petroleum and petrochemicals (continued)				
Pennzoil	United States	12/90	US\$	2 366
Petro-Canada	Canada	12/90	\$Can	5 873
Petrofina	Belgium	12/90	BF	577 692
Phillips Petroleum	United States	12/90	US\$	13 975
Pioneer	Australia	6/90	\$A	5 047
Repsol	Spain	12/90	Ptas	1 572 000
Royal Dutch/Shell	United Kingdom/ Netherlands	12/90	£ stg.	59 416
Ssangyong	Korea, Republic of	12/90	W	5 729 794
Statoil	Norway	12/90	NKr	72 356
Sun	United States	12/90	US\$	13 376
Texaco	United States	12/90	US\$	41 822
Total	France	12/90	FF	128 445
Total North America	Canada	12/90	\$Can	2 725
Ultramar	United Kingdom	12/90	£ stg.	1 761
Unocal	United States	12/90	US\$	11 508
USX	United States	12/90	US\$	20 659

Pharmaceuticals, soaps and cosmetics

Abbott Laboratories	United States	12/90	US\$	6 158
American Home Products	United States	12/90	US\$	6 775
Avon	United States	12/90	US\$	3 453
Beiersdorf	Germany	12/90	DM	3 952
Boehringer Ingelheim	Germany	12/90	DM	4 632
Bristol-Myers Squibb	United States	12/89	US\$	9 189
Colgate Palmolive	United States	12/90	US\$	5 691
East Asiatic Company	Denmark	12/90	DKr	15 816
Eli Lilly	United States	12/90	US\$	5 191
Fujisawa	Japan	3/90	¥	230 201
Glaxo	United Kingdom	6/90	£ stg.	2 854
Johnson & Johnson	United States	12/90	US\$	11 232
Kao	Japan	3/90	¥	620 429
Lion Corporation	Japan	12/90	¥	314 906
Merck	United States	12/90	US\$	7 671
L'Oreal	France	12/90	FF	30 359
Procordia	Sweden	12/90	SKr	37 033
Procter & Gamble	United States	6/90	US\$	24 081
Reckitt & Colman	United Kingdom	12/90	£ stg.	1 764
Sanko	Japan	3/90	¥	425 635
Schering	Germany	12/90	DM	5 923

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Corporation	Country	Year-end	Turnover (Millions of monetary units*)	
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Pharmaceuticals, soaps and cosmetics (continued)

Schering-Plough	United States	12/90	US\$	3 323
Shionogi	Japan	3/90	¥	213 223
Smith Kline Beecham	United Kingdom	12/90	£ stg.	4 764
Takeda	Japan	3/90	¥	694 399
Tanabe Seiyaku	Japan	3/91	¥	239 562
Upjohn	United States	12/90	US\$	3 021
Warner-Lambert	United States	12/90	US\$	4 687

Annex II

COUNTRY OF DOMICILE OF SAMPLE CORPORATIONS

	Total sample		Pharmaceuticals		Motors		Metals		Forestry		Petrochemicals		Chemicals	
	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age	Number	Percent- age
United States	65	29	12	43	9	24	2	5	12	19	15	39	15	39
Japan	49	22	7	25	14	38	10	26	4	13	4	18	10	20
Germany	23	10	3	11	4	11	8	21	-	-	-	-	8	16
United Kingdom	15	7	3	11	2	5	3	8	-	-	4	10	3	6
France	12	5	1	4	3	8	3	8	-	-	2	5	3	6
Canada	11	5	-	-	-	-	3	8	5	16	3	8	-	-
Sweden	10	4	1	4	2	5	1	3	4	13	1	3	1	2
Finland	7	3	-	-	-	-	2	5	3	10	1	3	1	2
Netherlands	5	2	-	-	-	-	1	3	-	-	1	3	2	4
Belgium	4	2	-	-	-	-	1	3	-	-	1	3	2	4
Switzerland	4	2	-	-	-	-	1	3	-	-	-	-	2	4
Italy	3	1	-	-	1	3	1	3	-	-	-	-	-	2
Australia	3	1	-	-	1	3	1	3	-	-	1	3	-	-
Rest of world	11	5	1	4	1	3	1	3	1	3	6	16	1	-
Total	222	100	28	100	38	100	37	100	31	100	38	100	50	100

Notes: A hyphen (-) indicates that, for a given country, no corporations in that particular industry participated in the survey.